



**Directorate of
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Near East and South Asia Review

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14 February 1986

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**Near East and
South Asia Review**

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| In the next several years, the Arab-Israeli conflict may well be highlighted by failure to achieve a Jordanian-Israeli peace agreement, another Syrian-Israeli war, intensified Palestinian-Israeli conflict within Israel and the occupied territories, and growing Israeli dependence on the United States. | 25X1 |
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Jordan: Curbing the Growth of Islamic Fundamentalism

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King Hussein has begun a serious crackdown on the growing expression of Islamic fundamentalism—particularly within government circles—which he views as a possible threat to his policies and the Middle Eastern peace initiative.

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Egypt: Problems for Mubarak

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Opposition to President Mubarak, while not strong enough to topple him, is growing and causing him serious concern. The credibility of his regime hinges largely on its economic performance at a time when the economy is steadily worsening, and popularity is hostage to any Israeli and US actions perceived as anti-Arab.

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Libya: Economy Under Siege

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The slide in world oil prices and US economic sanctions are the latest jolts to the Libyan economy, and they come at a time of unprecedented popular discontent over Libyan leader Qadhafi's misguided economic policies and penchant for costly foreign adventures.

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The Libyan Oil Industry: Dependence on Foreign Companies

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Foreign operating companies form the backbone of the Libyan crude oil industry. These companies not only provide infusions of badly needed capital but also bring Libya essential technical skills and managerial experience.

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Abu Abbas: Isolated and Dim Prospects

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Palestine Liberation Front leader Muhammad Abbas, responsible for the Achille Lauro hijacking, appears to be settling down in Baghdad, but he is likely to have little, if any, freedom to operate because of restrictions laid on him by PLO Chairman Arafat and the Iraqi Government.

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Iran-Soviet Union: Bearish Economic Relations Reflect Political Differences

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Economic ties between Iran and the Soviet Union have declined since 1983 largely because of the chill in political relations. Although neither side is willing to make the political concessions necessary for a substantial expansion of trade, recent diplomatic contacts are likely to lead to gradual improvement in economic relations.

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The civilian population in and around the Panjsher Valley contributes toward insurgent effectiveness by paying taxes, aiding insurgent resupply, building military facilities, and providing intelligence, and insurgent chief Masood takes pains to cultivate their support

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Islamabad's crackdown against tribes along its western border and in the North-West Frontier Province in December disrupted some tribal drug traffickers activities and forced others to move their bases into Afghanistan, but it probably will not decrease the overall amount of drugs produced, processed, or trafficked through the area.

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India: Gandhi Tackles Congress Party Problems

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Prime Minister Gandhi's recent top-level party appointments and a highly critical speech he gave to party regulars at the end of 1985 suggest he has made reorganizing and revitalizing the moribund Congress Party one of his major domestic goals for 1986.

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India's Bureaucracy: "A Fence Eating the Crops"

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Bureaucratic foot-dragging and inertia pose a serious obstacle to Indian Prime Minister Gandhi's domestic agenda; to his interest in improving Indo-US relations; and his ability to reduce inefficiency, redundancy, and corruption in public service is limited.

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An agreement reached last month between New Delhi and Colombo granting Sri Lankan citizenship to stateless Tamil teaworkers has provided a boost to Indian diplomacy, but has also fueled communal violence and provided the opposition with a rallying point against the government. [redacted]

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Articles

Arab-Israel Affairs: The Outlook From Tel Aviv ¹

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The Arab-Israeli conflict will be highlighted by the following trends in the next several years:

- A Jordanian-Israeli peace agreement is unlikely, even if direct talks between Amman and Jerusalem can be arranged. Should negotiations commence, regional instability will intensify. Should they begin and then fail, the regional equilibrium could collapse.
- Another Syrian-Israeli war is likely unless Syria's succession problem debilitates the country significantly. Such a conflict could be an aerial war of attrition, another encounter in Lebanon, or a full-scale war. Israel will win any major conflict, but the cost will be high.
- The Palestinian-Israeli conflict within Israel and the occupied territories will become more intense and bitter. Large-scale violence is unlikely. Periodic outbursts of disorder will become more frequent, possibly seriously eroding civil order in mixed cities such as Jerusalem.
- Israel's dependence on the United States will grow. US prestige in the region will suffer from failed peace initiatives. Close contact with Syria is essential but not sufficient to prevent fighting with Israel.

The Peace Process

In retrospect it is clear Jordan's King Hussein embarked on an important peace initiative in early 1984 to legitimize Jordan's policy of nonbelligerency

with Israel. In a series of steps—reconvening parliament with West Bank participation, reestablishing ties to Egypt, allowing the convening of the Palestine National Council, and signing the 1985 agreement with the Palestine Liberation Organization (PLO)—Hussein signaled his willingness to engage in a dialogue on a peace settlement. The process bogged down over procedural issues—none of them new—and the King's rapprochement with Syria may indicate he is backing away from his initiative.

Because the King's initiative never got beyond procedural issues, Israel and Jordan did not discuss the substantive gap facing them concerning the West Bank and Jerusalem. In fact, the gap on the substantive issues of sovereignty and land is widening. Moreover, it is the King's appreciation of the size of the gap—not simply the procedural issues—that restrains him from direct talks. The gap is widening because Israeli perceptions of their minimal requirements in the disputed territories are expanding steadily under pressure of the facts on the ground, while Arab perceptions are frozen. Israelis will not surrender today what they were ready to give the Arabs in 1967 or 1977. It is critical to note that a whole generation of Israelis is entering political life with no memory of an Israel without the West Bank. Many of these Israelis cannot conceive of an Israel without the West Bank, and a few are prepared to fight other Jews to hold onto it. A sizable bloc of Israeli voters, represented by Likud, is unwilling to make any territorial compromise in the West Bank.

Among those in Labor who favor a compromise, there is a rough consensus that all of Jerusalem, the Jordan

 The conclusions represent the author's views and have not been coordinated with other analysts.

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Valley heights, and the key settlement areas around Ma'ale Adumin and Gush Etzion should not be returned to Jordan. As for the Gaza Strip, Labor insists on retaining the settlement bloc between the frontier with Egypt and Gaza city. All of Labor's reservations reflect security concerns and/or well-established facts on the ground.

King Hussein, however, can only accept a settlement in which virtually all of the West Bank, including part of East Jerusalem, is returned to Arab rule. A truncated West Bank, deprived of its capital of East Jerusalem and virtually surrounded by Israel, is not the King's goal nor a peace he could sell to other Arabs. A settlement on Labor's lines, for example, would leave the northern and southern parts of the West Bank linked by roads running through Israeli Jerusalem. Hussein's critics would compare such an agreement critically to Sadat's peace treaty with Israel in which he received all of Sinai. The King can settle for no less than Sadat, but no Israeli government can approach these terms.

Nor can the King agree to a settlement based on shared sovereignty or autonomy. All such deals would appear to most Arabs as fig leaves to cover Israeli annexation. Moreover, any such arrangement would face massive problems in workability, compounded by the fact that, on the Israeli side, the most interested participants in such arrangements—the settlers—have the most to gain from obstinacy and obstructionism.

Finally, any peace agreement faces a critical problem of who would enforce it and prevent the creation of terrorist cells in the West Bank and Gaza. If the Israel Defense Forces stay, few Arabs will back the agreement. The Israelis do not trust international forces, whose track record against terrorism is poor. Furthermore, not many states are likely to volunteer troops. If the Israelis allow a sizable Jordanian military presence, it could ultimately pose a threat to Israel. A small force could not stifle Palestinian nationalism and irredentism. Israeli military experts claim that before 1967 three-quarters of Hussein's Army was deployed in the West Bank and devoted primarily to protecting Hashemite rule from Palestinian dissidence and Israel from fedayeen terror.

Should Jordanian-Israeli talks begin, Syria and its allies are certain to react by stepping up terror and assassination, by heating up Israel's Lebanon frontier, and possibly by attacking or threatening Jordan or Israel. Should negotiations begin and fail, the King's domestic legitimacy will be weakened, despair will grip the moderate Arab front, Egypt will again be isolated, and the fragile equilibrium of regional stability will be eroded. The de facto Israeli-Jordanian peace could be undermined. In this regard, it should be noted that Hussein's initiatives were a major factor in causing the outburst of international terrorism in 1985 in the Middle East as rival Palestinian groups sought to demonstrate their commitment to armed struggle.

Syrian Ambitions

Since Egypt's withdrawal from the Arab-Israeli confrontation, Syria and Israel have engaged in a struggle for dominance of the Levant. Whether by design or accident, another war between the two is a strong possibility in the late 1980s or early 1990s. Syrian leaders, particularly President Assad, constantly reiterate their objective of achieving strategic parity with Israel. This is not simply rhetoric. It reflects deeply held hostility to Israel and a conviction that only the restoration of a balance of power will force Israel to make major concessions to the Arabs.

Syria is in the process of a massive arms buildup to buttress its position. In part, this is a belated reaction to Israel's post-1973 buildup, but it also has an offensive objective. Assad probably is willing to consider a surprise attack for limited military goals to reorder the political map of the area. This is the strategy he and Sadat agreed on in 1973. In Assad's eyes, Sadat began betraying their common cause when he failed to agree to Soviet efforts to halt the 1973 war in its early days when the Arabs were winning. A key Syrian objective in a new war will be to destabilize the Egyptian-Israeli peace and the moderate regime in Cairo.

Most Israeli-Syrian watchers, both in and out of government, are convinced Assad will try again, if he

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lives long enough, to complete the buildup. A prominent Israeli specialist on Syria speculated recently that Assad may move in mid-1987, coincident with the 800th anniversary of Saladin's victory in 1187 over the Crusaders, which will be a period of major symbolic importance for Syrian and Arab nationalism.

These Israeli perceptions form the backdrop to events like the continuing Israeli-Syrian missile crisis. Well-informed Israeli academic Syrian watchers believe senior military and government officials have already discussed the pros and cons of a preemptive war to halt Syria's buildup.

The struggle between Syria and Israel for preeminence in the Levant has focused in recent years on Lebanon. Syria scored major successes against Israel in this rivalry in 1984 and 1985, but it would be a mistake to believe the Israeli-Syrian conflict in Lebanon is over. Powerful Israeli bureaucracies, including Mossad and the Israel Defense Forces' Northern Command, remain involved and interested in Lebanese politics, although their interests are not identical. Israeli national interests remain very much at stake, despite popular disillusionment. A change of leadership in Jerusalem or an upsurge of violence on the frontier would lead to new confrontations. For its part, Syria is determined to make Lebanon part of the confrontation front against Israel—a commitment specifically outlined in the recent Syrian-backed Tripartite Agreement to end the Lebanese civil war.

Lebanon's internal collapse in the mid-1970s was in large part caused by the destabilizing impact of the increasingly stronger Assad regime in Syria. A similar internal upheaval in Syria is much less likely, but a debilitating succession struggle after Assad's death could postpone indefinitely Syria's showdown with Israel. On the other hand, a weak successor regime could seek enhanced legitimacy by attacking Israel. Under almost all scenarios, Damascus (not Moscow) will retain its independent decisionmaking authority.

A future war will be costly. Many Israeli military experts believe Syria will use its strategic weapons—Scuds and SAM-5s—if war breaks out on the Golan Heights. Both sides also have some chemical and

biological warfare capability. The Syrians remember vividly that in 1973 Israel bombed Damascus and other Syrian cities. As proved in the 1981 Hamah uprising and often in Lebanon, Syria has no scruples about waging war on civilians. Israeli officers express respect for the defensive stamina of Syrian troops, especially commando units, and admit future clashes will be hard fought.

Within Israel—Two Societies

Nineteen years after the Six-Day War, Israel and the occupied territories are a political and economic entity divided into two societies. One society is relatively rich, armed, and powerful, while the other by comparison is poor, defenseless, and impotent. It is a potentially explosive combination.

Economic integration is considerable. Tens of thousands of West Bank and Gaza Arabs do the menial chores of the Jewish state. Hours before dawn, convoys of laborers leave Gaza, for example, to build homes, pick fruit, and collect garbage around Tel Aviv. Although it is illegal for Arabs to stay overnight inside Israel proper, thousands do. An Israeli newspaper estimated 50,000 Gazans, or 1 out of 10, sleep every night in Tel Aviv.

Israeli occupation has brought some prosperity to the territories—a key factor in their relative quiescence—but the economic crisis in Israel is increasing unemployment in the territories. Cutbacks in oil production by the Gulf states are also eroding opportunities for Arab youth. This economic conjuncture threatens to add fuel to the political confrontation.

Political extremism in the guise of religious fundamentalism and radicalism is growing on both sides. Among Gazans and West Bankers, fundamentalism exerts its hold on the young, especially the generation that has been born under Israeli rule. These radicals are first attending to changing the social mores of Palestinians. The confrontation with Zionism has been deliberately postponed until a new Islamic man is ready.

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On the Israeli side, religious extremism is a fast-growing phenomenon manifested in Kahanism and the legislative trend against secularism. An Israeli journalist predicted last year that by the mid-1990s Jerusalem will be divided into an Arab eastern sector, a secular Jewish southern sector, and an Orthodox Jewish northern sector with deep faultlines between them. Allied to the religious right stands the so-called new Zionism of rightwing extremists like Ariel Sharon and the Tehiya organization.

Last summer witnessed an unprecedented wave of Arab terrorism against individual Israelis in the border towns on both sides of the pre-1967 lines, where commercial interaction between Jew and Arab is most frequent. Although Israeli leaders blamed the PLO presence in Jordan, a military study showed over half the terror cells uncovered in the occupied territories were homegrown and independent of any fedayeen group. The Israel Defense Forces quieted the territories by October 1985, but all sides recognize another wave of violence is inevitable.

Just as the complex interactions between Israel and the occupied territories erode the prospects for a Jordanian-Israeli peace, they also carry the potential to foster more frequent episodes of violence. Both the fedayeen and Jewish terror underground will seize on opportunities to create crises. Some Israelis fear mixed cities, especially Jerusalem, could become the Belfasts of the Middle East.

Major Arab unrest is unlikely because of internal cleavages among the Palestinians and the military's ability to deport troublemakers to Jordan. Nonetheless, the situation is dynamic. There is little reason to believe that the two societies tied together in Israel can avoid growing violence.

Implications for the United States

No peace and tension with Syria means Israel, the United States' closest ally in the Middle East, will grow more dependent on US assistance. Large defense budgets will keep the Israeli economy unbalanced. Financial aid to Israel will remain high, as will the related US aid to Egypt to keep the southern front quiet.

As dependence grows, so will the complexities and contradictions that are part of the peculiar relationship between Washington and Tel Aviv. The United States will continue to face tough choices between its commitment to Israel and its other interests in the Arab world.

US prestige and credibility in the area is inherently tied to the peace process. To the extent the United States emphasizes that connection and meets almost certain failure, its credibility will suffer. Quiet probing for opportunities will be less costly in the long run but will fail to satisfy moderate Arab demands for more pressure on Israel.

A key US role in the area is to serve as a reliable channel for Syrian-Israeli dialogue. The United States can help to develop limits of behavior—for both sides—to manage this confrontation. Improving US channels to Assad is an essential, but probably not sufficient, mechanism for averting another war. US failures in Lebanon in 1982-84 were primarily a reflection of the insufficient emphasis placed on the Syrian factor and lack of timely communication with Damascus. Another such error could be more costly. Syrian leaders need to be deterred from adventurism, while Israeli policymakers must recognize Syria's legitimate concerns. Only the United States can play an intermediary role.

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Israel-Syria: Missile Crisis

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The Israeli shootdown of two Syrian MIG-23s last November was the proximate cause of what has become a test of wills between Israel and Syria. After the clash, Damascus reacted decisively—first by briefly fielding mobile air defense missiles in Lebanon and later by deploying missiles along the border with Lebanon. As the Israelis ever more vociferously denounced their presence and Damascus moved closer to pushing the principal Lebanese factions into signing the Tripartite Agreement, the Syrians responded by reintroducing surface-to-air missiles into Lebanon.

withdrawal in 1985 of most of its troops from Lebanon and the recent cuts in its defense budget. Since the withdrawal, Tel Aviv has been concerned over the erosion of its ability to control events in Lebanon and has been distressed by the gradual increase of Palestinian and radical Lebanese Shia attacks on Israeli targets in southern Lebanon and northern Israel. The Israelis believe President Assad has supported many of these attacks, and his sponsorship of the well-publicized suicide car bombings in southern Lebanon probably has been particularly galling.

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The threat of Israeli retaliation against Syrian clients in Lebanon for their involvement in the terrorist attacks in Rome and Vienna apparently led Syrian President Assad to withdraw the missiles from Lebanon. The Israelis, however, continue to complain about the missiles on the border, and Syria shows no signs of removing them—suggesting the crisis could drag on for some time. The Israelis apparently believe they cannot drop the matter without emboldening Damascus to press them on other issues, and the Syrians apparently believe they will be able to garner additional political and possibly economic support, regardless of whether the Israelis attack.

Although the Syrians might have caused the 19 November clash, they probably did not do so purposely. President Assad claimed credit for the Israeli withdrawal and had been working with some success since then to increase his control of events in Lebanon. Moreover, in response to tough-sounding warnings earlier in the fall by Israeli Defense Minister Rabin, Damascus apparently put some of its forces opposite the Golan Heights on alert—suggesting Damascus was concerned about an Israeli attack.

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The Air Clash. During a reconnaissance mission over Lebanon on 19 November 1985, Israeli F-15s shot down two Syrian MIG-23s flying defensive patrols over Syria. Israeli spokesmen contend the F-15s acted to protect Israeli RF-4Es, claiming the MIG-23s were preparing to fire on the reconnaissance aircraft. The Israelis argue that in the days preceding the shootdown, Syrian forces had become bolder in reacting to Israeli reconnaissance flights over the Bekaa Valley. They maintain that on 18 November, MIG-23s operating in Syrian airspace fired at Israeli planes flying over Lebanon.

Initial Syrian Moves. After the air clash, Damascus wanted to demonstrate its resolve to defend Syrian territory and may have initially feared an attack on its forces in Lebanon. During the weekend of 23 November,

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Syria bolstered its air defense coverage over that country by deploying SA-6s and SA-8s into the Bekaa Valley—the first such tactical missiles in Lebanon since the Israeli invasion in 1982.

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over the weekend of 30 November, Damascus withdrew the low-to-medium-altitude missiles from Lebanon—presumably because of diplomatic pressure and to preclude the Israelis from destroying them.

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Whatever the justification, the Israelis probably fomented the clash on 19 November to remind Syria of Israel's continued military superiority despite the

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At the same time, Syria began to move medium-to-high-altitude SA-2s to the Lebanese border. [redacted]

[redacted] the Syrians prepared two SA-2 sites along the border in 1984, they may have initially fielded the SA-2s as a purely defensive move. The Syrians probably viewed the SA-2 deployment as a way to buttress their air defenses without placing greater reliance on their newer, more capable SA-5s—which, if used, would invite Israeli strikes deep into Syria. [redacted]

Assad Ups the Ante. As a result of the deployment of SA-2s along the Syrian border with Lebanon, the Israelis shifted their reconnaissance flights westward from the Bekaa Valley to the Lebanese coast, and on 15 December, they publicly complained about the presence of the missiles. After denouncing Israel for attempting to dictate where Syria could station missiles on its own territory, Damascus redeployed SA-6s and SA-8s into Lebanon on 20 December,

[redacted] A few days later, [redacted] the Syrians had established mixed SA-6 and SA-8 units at three sites overlooking the valley. [redacted]

President Assad probably took this escalatory step for several reasons. First, he apparently believed the Israelis were likely to attack the SA-2 sites opposite central Lebanon and recognized the sites were vulnerable without additional support, particularly along likely attack routes in the Bekaa Valley. Second, Assad may have perceived that partial Israeli and Syrian troop withdrawals from Lebanon lessened Israeli requirements for intelligence on Lebanon and wanted to reduce Israeli coverage of Syria and Syrian-supported groups in the Bekaa. Third, at a time when his government was pushing hard to get the three major Lebanese factions to sign an agreement ending Lebanon's civil war, he probably wanted to increase pressure on the Israelis to reduce their presence in and over Lebanon. [redacted]

Tensions Ease. On 26 December, after Israel publicly decried the return of Syrian missiles to Lebanon and after Syria retorted by publicly asserting the right to defend its troops in Lebanon and accused Tel Aviv of attempting to sabotage efforts to end the Lebanese civil war, a clash seemed certain. [redacted]

Damascus had again begun to withdraw the SA-6s and SA-8s from Lebanon—reducing the danger of imminent conflict. Assad may have calculated that the Israelis would retaliate for the terrorist attacks in Rome and Vienna by attacking Palestinian bases in the Bekaa Valley and decided he did not want to risk his missile units there. [redacted]

President Assad also may have withdrawn the SA-6s and SA-8s to ease tensions while he began to establish a third SA-5 complex. [redacted]

But a Clash Is Still Likely. Although the Israelis have moderated their statements since Syria's removal of the SA-6s and SA-8s and have restricted their antiguerilla operations to southern Lebanon and the coastal areas, they still demand the withdrawal of the SA-2s from the Syrian-Lebanese border. They maintain that these weapons threaten reconnaissance flights they consider vital. But even if the Syrians optically guide SA-2s to achieve surprise and nullify the effectiveness of Israeli electronic countermeasures, the chances of hitting an Israeli RF-4E reconnaissance aircraft are modest. The Israelis probably are concerned about maintaining their reputation for invincibility and do not want to risk losing a single aircraft. [redacted]

The Israelis could reduce the possibility that the Syrians would purposely fire on them by adding several strike aircraft to their reconnaissance missions to retaliate immediately against SA-2 launches—

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much as they include F-15s and F-16s to protect against would-be MIG-23 attacks. So far, the Israelis have shown no signs they are prepared to include SAM-suppression aircraft in their reconnaissance missions, but they have stated repeatedly their unwillingness to permanently forgo overflying the Bekaa Valley. [redacted]

Having made an issue of the SA-2s, the Israelis apparently believe they cannot drop the matter without the risk of convincing Damascus that Israel no longer has the will to defend itself forcefully. No member of the Peres government has publicly criticized Israel's restraint in responding to the Syrian challenge. Even Foreign Minister Shamir, one of the most prominent Likud hardliners, has said that Israel must continue its reconnaissance flights over Lebanon but must also find a solution "through a cautious and reasoned approach." This apparent unity of purpose strongly suggests that the inner cabinet has agreed on a strategy that includes military action if Assad refuses to relent. [redacted]

For their part, the Syrians categorically reject Israel's right to overfly Lebanon and may reintroduce the SA-6s and SA-8s into the Bekaa Valley—either periodically to nettle the Israelis or to gain a tactical advantage in anticipation of an attack. [redacted]

[redacted] Damascus is determined to consolidate its control over Lebanon. [redacted]
 [redacted] Damascus is working to improve its SA-6 field sites in Lebanon. [redacted]
 [redacted]
 [redacted]

Barring an inadvertent clash, neither Israel nor Syria seems ready to force the issue—suggesting the missile crisis could drag on for some time. Prime Minister Peres does not want Israel held responsible—especially by Egypt and Jordan—for derailing the Middle Eastern peace process through a precipitate use of force. Israel also wants to reduce its operational risks to a minimum—a difficult task while Syrian air and air defense forces are expecting an attack. [redacted]

Syria suffered a serious setback in Lebanon on 14 January when Lebanese President Gemayel refused to

support the Tripartite Agreement and is preparing to use military pressure to bring the recalcitrant Lebanese Christians to heel. According to the US Embassy in Damascus, Syria was also outraged by Israel's interception on 4 February of a Libyan civil aircraft, which was returning Syrian officials from a conference and that Tel Aviv erroneously believed was carrying Ahmad Jibril, head of the Popular Front for the Liberation of Palestine-General Command.

[redacted]
 [redacted]

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And the Winner? Assuming the Israelis and Syrians are successful in confining the arena to Lebanon and the Lebanese border area, President Assad probably believes he will emerge from this test of wills as the winner. If the Israelis refrain from attacking, he could claim Syria's steadfastness continues to keep them from Arab soil. Assad probably believes that if the Israelis attack they would confine airstrikes to the SA-2s, SA-6s, and SA-8s near the Beirut-Damascus highway. He would hope to destroy the myth of Israeli air force invincibility by downing a few aircraft. Even if his forces were thoroughly drubbed, Assad probably believes a violent display of Israeli aggressiveness would provide Syria with additional Arab political—and possibly economic—support and establish a case for pressing the Soviets to provide more and better military equipment. [redacted]

Although the Israelis clearly recognize that Damascus would gain from an attack—particularly in the short term—they probably would regard it as necessary to buttress deterrence. By striking, the Israelis would hope to convince Damascus that its quest for military parity is feckless, to serve notice they will not be forced out of Lebanon, and to underscore their refusal to countenance guerrilla attacks against their northern settlements. [redacted]

[redacted]

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Israel-USSR: If Moscow and Tel Aviv Restore Diplomatic Ties [redacted]

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Israeli officials continue to look for signs that Moscow may soon ease restrictions on Jewish emigration and normalize bilateral relations despite their disappointment at the lack of progress on these issues since the US-USSR summit meeting at Geneva. The release this week of Anatoly Shcharansky is likely to raise Israeli hopes further. Although we believe a change in Soviet policy is not imminent, the resumption of ties between Israel and the USSR and an increase in Soviet Jewish emigration could have a major impact on Israel's political and economic situation and the prospects for achieving a US-brokered peace settlement in the Middle East. [redacted]

Political Impact

Prime Minister Peres's political standing would be enhanced if Israel and the Soviet Union resume diplomatic relations. He could parlay this to boost Labor's electoral prospects if the national unity coalition collapses and an early election is held. [redacted]

US Embassy and Israeli media reporting indicates that the Israeli public is keenly interested in reestablishing relations with Moscow and hopes that this would facilitate closer ties to Soviet Jewry and increase the immigration of Jews to Israel. Reflecting the public attitude, the Israeli Government periodically has reaffirmed its readiness to normalize relations with the Soviet Union. [redacted]

The public's reaction would be tempered by the concessions Israel might have to make in return. Media reporting indicates that, in the view of most Israelis, Moscow was responsible for breaking relations and should take the initiative to correct the situation. Nonetheless, they probably would support concessions in areas that Moscow refers to as "anti-Soviet propaganda"—such as curtailing publicity about the plight of Soviet Jews or support for the new Voice of America relay station planned for Israel—given the probable gains. [redacted]

The generally favorable public reaction to Peres's peace strategy, which he outlined to the UN General Assembly last October, suggests Israelis would support Soviet participation in an international peace conference as long as it did not substitute for direct Israeli-Arab talks. In his speech to the United Nations, Peres declared Israel would agree to participate in an international conclave that would include the USSR (and the other permanent members of the UN Security Council that have relations with Israel) if Moscow first restored bilateral ties. Peres has also indicated that Moscow would have to allow significantly more Soviet Jews to immigrate to Israel as a condition for convening an international conference. According to Israeli press reports, Peres privately told Knesset members in November that he viewed the resumption of Soviet Jewish emigration as even more important than the restoration of relations. [redacted]

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The government would not yield on the issue of returning territory on the Golan Heights to Syria as a precondition for resuming relations with Moscow. Most Labor leaders favor some territorial concessions on the Golan, but Likud adamantly opposes returning territory there because of security concerns. Labor leaders, moreover, do not believe Syria would accept less than a full Israeli withdrawal from the Golan, which neither they nor Likud contemplate. Although the condition of Soviet Jewry commands considerable attention in Israel, the government would not permit this issue to compromise its basic security interests. We believe at most, the Israeli Government might be willing to reaffirm its willingness to negotiate a peace agreement with Syria without preconditions. [redacted]

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Economic Impact

A large influx of Soviet Jewish immigrants into Israel would have both economic and political repercussions.

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Estimates differ widely as to how many of the approximately 1.7 million Soviet Jews would choose to go to Israel if Tel Aviv and Moscow improve relations and the Soviets relax emigration restrictions. More than 160,000 Soviet Jews immigrated to Israel between 1969 and 1980, reaching a high of 33,458 in 1973. In 1984, however, only 345 Jews elected to go to Israel out of 896 permitted to leave the USSR. Some Soviet Jews already in Israel claim that "hundreds of thousands" more would leave the USSR if they could, but US Jewish organizations active on behalf of Soviet Jewry estimated last year that only about 20,000 Jews in the USSR were being barred from emigrating. Israel's Ministry of Immigrant Absorption reported last October that it had made contingency plans to absorb "thousands" of Soviet Jews who might be allowed to emigrate in the near future. [redacted]

In the event of large-scale emigration from the USSR, the Israeli Government would be caught between its desire to maintain budget austerity and the need to absorb the new immigrants into Israeli society as rapidly as possible. Israel's experience absorbing over 8,000 Ethiopian Jewish immigrants during the 1984 airlift demonstrates the budgetary strains that are likely to occur as a result of a large inflow of immigrants from the USSR. Israeli officials estimate that absorbing the Ethiopian Jews will cost over \$300 million, with half going toward housing.

[redacted]

Of particular difficulty is the simultaneous provision of permanent housing and employment for new immigrants. [redacted]

development towns with available housing, where new immigrants ordinarily would be resettled, are already struggling with unemployment rates of 20 percent or higher—well above the 7- to 8-percent rate nationwide. In the large urban areas where jobs are available, there is little inexpensive housing. Moreover, economic conditions in Israel are unlikely to improve soon, continuing the squeeze on jobs and housing. Tel Aviv is likely to seek US economic assistance to cope with the problems caused by an influx of Soviet immigrants. [redacted]

Tel Aviv might choose to resettle Soviet immigrants on the West Bank, which has many inexpensive

apartments within commuting distance of jobs in Israel proper. This could lead to a political flap with the United States, as did the resettlement last fall on the West Bank of approximately 50 Ethiopian Jews who had arrived in the 1984 airlift. Peres subsequently stopped the movement of additional Ethiopian Jews to the West Bank, recognizing the potential risks to relations with the United States and to substantial US and foreign Jewish funding for the absorption program. Vice Prime Minister Shamir, on the other hand, has insisted that relocating immigrants on the West Bank is the only feasible solution to the housing problem. He is also concerned with courting settlement activists, many of whom are Likud supporters, at a time when the pace of settlement construction has slowed considerably from what it was during previous Likud governments. [redacted]

The immediate economic costs of absorbing new immigrants could be offset over the longer term by the likely improvement in trade relations with Eastern Europe as a result of resumed diplomatic ties. Israeli imports from the Soviet Union have averaged a minuscule \$35,000 over the past few years—apparently books and other reading material—and no exports have been reported. Trade turnover with Moscow's East European allies is almost \$100 million annually—of which half is with Romania—but this is much less than 1 percent of all Israeli trade. Some moves have been afoot over the last year to improve trade ties to Poland and Hungary, and renewed diplomatic relations with Moscow would no doubt facilitate this. [redacted]

Effect on Peace Negotiations

The restoration of Soviet-Israeli ties might complicate the realization of a US-brokered peace settlement if Israel, in return, drops its opposition to Moscow's participation in an international peace conference. Moscow's principal diplomatic goal in the Middle East has been to reassert its role as a major player in the region and to obtain a seat at the Arab-Israeli negotiating table as an equal of the United States. To that end, the USSR has repeatedly called for a return to US-Soviet cooperation on the peace process and for

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a reconvened international peace conference. Israeli—as well as US—opposition has prevented the convening of such a gathering. [redacted]

Although Soviet officials have indicated [redacted] concern about Syria's reaction has been the major factor preventing Moscow from reestablishing ties to Tel Aviv, we believe none of the USSR's allies in the Arab world would go beyond pro forma protests if Soviet-Israeli relations were restored. Syria, Libya, and South Yemen depend heavily on the Soviets for arms supplies and are unlikely to jeopardize relations over the issue. Moscow probably would justify its decision to its allies in terms of strengthening its ability to exert influence on Israel, to push for a broader international conference, and to better defend Arab interests. [redacted]

Moderate Arab governments would welcome the resumption of Soviet-Israeli ties, particularly if they saw it as facilitating an international peace conference. They support convening such a conference because of their frustration over the lack of progress toward a comprehensive settlement and increasing skepticism that the United States is capable of playing the role of honest broker. US Embassy reporting indicates that, although the Egyptians and Jordanians believe the USSR has little to contribute to the peace process, they also believe Moscow would do less damage if it were included in negotiations.

[redacted]
We believe Israel would strive to minimize the Soviet role in a peace conclave. Peres has stated that he sees an international conference only as a loose framework within which Israel would hold direct negotiations with a Jordanian-Palestinian delegation and with Syria, if it chose to attend. In his view, the extraregional parties attending the conference would not have the power to veto agreements that are reached in direct Israeli-Arab talks. [redacted]

Soviet officials have made clear that the USSR would not attend a conference unless it is accorded a role equal to that of the United States and unless Syria and the PLO are represented. We believe Moscow might attempt to moderate Syrian and PLO positions if it obtained a significant role at the peace conference, but it almost certainly would not back a settlement unacceptable to them. Moscow does not possess the leverage to make Syria or the PLO sign an agreement that did not meet their objectives, and it would not risk damaging bilateral relations—especially with Damascus—by trying to force their acceptance. [redacted]

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Syria-Turkey: Uneasy Relations

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Syria and Turkey, which in the past have moderated their bilateral disputes because of pressing national security threats on other frontiers, appear to be inching toward confrontation over water rights to the Euphrates River, and Syrian support for Turkish dissidents. Although there was an increase last year in Syrian-Turkish diplomatic activity, fundamental and potentially explosive issues remain unresolved. Moreover, the opposing superpower alignments of Syria and Turkey make the long-term prospect for rapprochement unlikely.

So long as Turkey proceeds with plans to expand its hydrological projects along the Euphrates River, the US Embassy in Damascus reports that Syria fears the projects will substantially reduce the volume and quality of Euphrates River water flowing south into Syria and will jeopardize its own ambitious hydrological schemes. The Embassy reports that negotiations over water issues have so far amounted to little more than information exchanges.

Syria is using its 45-year-old irredentist claim to Turkey's Hatay province; its increased diplomatic overtures to Greece, Cyprus, and Bulgaria; and its tolerance of cross-border smuggling as bargaining chips to bring Turkey to terms on the Euphrates water rights issue. Turkey, however, seems determined to proceed with its hydrological plans and will probably use the specter of future water projects to counter Syrian intrigues and threats.

Still Waters Run Deep

The question of the division of the Euphrates water has poisoned Syrian-Turkish relations since the 1960s and the advent of both countries' ambitious hydrological programs. Over the years Turkey and Syria have touted their respective programs as symbols of national development and a means of achieving economic self-sufficiency.

Turkey hopes to achieve two long-term goals through its water policy: to reduce its dependence on foreign

Euphrates Water Plans

The Keban, the first of Turkey's Euphrates dams and the farthest upstream, was completed in 1974 and has a reservoir capacity of 30 billion cubic meters (bcm) of water. The Karakaya Dam, about 170 km downstream, is scheduled to be completed in 1987. It will have a reservoir capacity of 9.5 bcm and a production capacity of 7.3 billion Kwh annually.

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The Ataturk Dam, located 180 km downstream of Karakaya near the city of Adiyaman, will be one of the largest dams in the world when completed in 1993. It will have an estimated production capacity of 8.9 billion Kwh and a reservoir capacity of 48 bcm. Two smaller dams downstream at Findikli and Karkamis are still in the planning stage.

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The Syrians began their Euphrates water program in the 1960s to expand their hydroelectric capability and to fulfill a Ba'th Party commitment to land reform. The Tabqa Dam, completed in 1975 with Soviet aid, has eight 100 MW turbines and a reservoir capacity of 11.6 bcm. A smaller dam 50 km downstream at Raqqah is scheduled to be completed this year, while a third dam to be constructed at the head of Lake Assad, is still in the planning stages.

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sources of energy, easing its trade and foreign exchange deficits; and to increase the agricultural productivity in southeastern Turkey, traditionally one of the most depressed areas of the country.

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Talks between Syria and Turkey over the use of Euphrates waters, first begun in 1962, have contained little serious discussion of the issues, according to Embassy reports. Since annual tripartite talks, which

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included Iraq, ceased in 1972, neither country has attempted to coordinate its projects or plans with the other. As a result, one estimate indicates that, if all the projects under consideration come to fruition, their combined water requirements would exceed the capacity of the river during certain times of the year. This demand may be compensated for by dams and reservoirs, regulating the flow of water throughout the year. [redacted]

Syria's fear of the potential damage posed by Turkey's water schemes to its own Euphrates development plan has much to do with Turkey's failure to develop a means of rechanneling irrigation runoff back to the river above the Tabqa Dam.

[redacted] such a plan is critical to ensure sufficient downstream water flows to Lake Assad in the future. Turkey, although probably unable to alter its current construction, may want to leave the issue of future projects open as a bargaining chip and has already shown a willingness to pay a price by forgoing much needed financing from the World Bank, which requires aid recipients to conclude riparian treaties with downstream users. [redacted]

Syria has informally accused Turkey of being responsible for the present low water levels of the Euphrates, which it claims reduced the Tabqa Dam's productive output by 20 percent last year. Turkish officials have attributed this shortfall to drought conditions in central Turkey and have countered that Syria's Euphrates developments have seriously affected Iraq's water supply. Turkish officials claim that their dams will benefit Syria by regulating the flow of the Euphrates, whose level in the past has been subject to wide seasonal fluctuation. [redacted]

Disquiet on the Northern Front

The Turks are convinced Syria is backing Turkish dissident organizations. We have little independent information on the extent of Syrian ties to these groups, but we believe Syrian support is significant and growing. Damascus probably hopes to use Turkey's perception that it actively supports Turkish dissident groups as a lever to gain concessions on other bilateral issues. Syria, however, has been careful to deny publicly any involvement with these groups to preserve its diplomatic ties to Turkey and to reduce

the likelihood of cross-border retaliation. Syria has attributed the sporadic violence in the border region to its limited security capability along its northern frontier. [redacted]

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According to a generally reliable source of the US defense attache in Ankara, Turkey has identified 22 camps throughout Syria where Turkish dissident groups train. The most prominent of these groups are the Kurdish Labor Party, an organization that calls for a Kurdish state in southeastern Turkey, and the Armenian Secret Army for the Liberation of Armenia (ASALA), which seeks an independent Armenian homeland and revenge for the massacre of Armenians by the Ottoman Empire in 1915. [redacted]

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[redacted] that these groups receive training and materiel from the Soviets, and at least partly fund their activities by drug smuggling. [redacted]

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[redacted] after having tried unsuccessfully to obtain Syrian cooperation in fighting insurgency, has taken unilateral steps to beef up its border security. The Turks are gradually installing a system of checkpoints and military guard posts along the border to supplement the existing minefields, according to press reports. The Turks have also begun construction of a 1.5- to 2-meter-high lighted fence that will eventually extend the length of the Syrian-Turkish border. [redacted]

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Other Irritants

The US Embassy in Damascus reports that Turkey is concerned about staunching the flow of smuggling from Syria. Turkey has responded to this activity by instituting occasional visa slowdowns. A Turkish official claims that hundreds of Turks annually smuggle luxury goods and other contraband from Syrian entrepots in Tartus, Latakia, and Aleppo past Turkish customs. [redacted]

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Syria's irredentist claim on Turkey's Hatay province has been a sore spot in bilateral relations since before World War II. Syria alleges that the French illegally ceded Hatay and its port capital, Iskenderun, to

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Turkey in 1939 to ensure the latter's neutrality in the war. Since that time, migration of the former Arab majority from the province has made Syrian claims to the region less tenable. [redacted]

The present Alawite minority regime in Syria has shown special interest in Hatay because of the significant Alawite (Alevi in Turkey) population residing in the province. [redacted]

[redacted] there has been much unrest among the Alevi minority in Hatay, and many have illegally fled to Syria. [redacted]

Syria's attempts to establish closer ties to Turkey's estranged neighbors, Greece and Bulgaria, have placed additional strains on bilateral relations. Syria and Greece concluded a military cooperation agreement in September 1985 following a visit by Syrian Defense Minister Mustafa Talas, part of which provided for Syrian officer training in Greece.

[redacted]
 [redacted] Syria's friendly relations with the Greek Cypriots have also irritated the Turks. The US Embassy in Ankara reports that the Turks are wary of a Syrian freight transport agreement with Greece and Bulgaria that they believe is intended to cut them out of the lucrative Middle Eastern freight-forwarding market. [redacted]

Diplomatic Solutions Sputter

In the past year Turkey and Syria have stepped up diplomatic contacts in the hope of reducing strains in their relations. The US Embassy in Damascus quoted a Turkish diplomat there as saying that relations were not merely normal but "even good." In October 1985, President Assad made public a directive calling for the "absolute improving of relations with Turkey." Syrian Vice President Khaddam was also quoted as saying "Syria has no benefit in straining relations with Turkey" and "will not allow an act on its soil which Turkey would call a destructive one." [redacted]

The cordial tone of Syrian-Turkish diplomatic contacts seems to belie the intransigence both sides

have shown on fundamental issues. Although Turkish Foreign Undersecretary Necdet Tezel described his meeting in Damascus in March 1985 as satisfactory, the US Embassy in Ankara reports that Turkish officials are miffed that Syria has not responded to Tezel's proposal for a buffer zone to halt insurgent violence. A subsequent bilateral foreign ministers' meeting at the opening of the UN General Assembly resulted in a Syrian pledge of cooperation on this issue, but again no action. [redacted]

After several postponements, a three-day meeting of the Turkish-Syrian Joint Economic Committee convened in October 1985 to discuss improving trade and financial relations. The US Embassy in Damascus reports that Euphrates water issues were discussed briefly, but officials on both sides seemed interested in avoiding contentious issues. The US Embassy in Ankara reported that, while discussing the water issue, Turkish Minister of State Tinaz Titiz reiterated Turkey's overriding concern for security matters. [redacted]

Military Option

Syrian and Turkish strategic priorities elsewhere in the region have probably discouraged either side from using military intimidation to extract concessions on key bilateral issues. Turkey's NATO commitments, its continuing rivalry with Greece, and its involvement in Cyprus continue to take precedence in terms of its national security. Likewise, Syria would feel hard pressed to redeploy its forces in Lebanon or in front of the Golan Heights to its northern border. Syria and Turkey have contingency plans for committing troops in an emergency, but both sides normally depend on security police with small arms to watch over their common border. [redacted]

Syrian and Turkish officials have tried to limit their rhetoric to reduce tensions despite pressure from their respective militaries to adopt a more aggressive posture in bilateral relations. The US Embassy in Ankara reports that Turkish military officers are concerned about the level and sophistication of Soviet arms transfers to Syria and have urged their

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government to make an appropriate response. The Turks have expressed alarm that Soviet-supplied SA-5 missiles may be deployed in northern Syria, for example.

Pressing national security interests elsewhere in the region will probably discourage either side from militarizing their common border as a means of extracting political or economic concessions. Both countries probably realize that a significant military confrontation would invite superpower involvement. Over the long term, however, should Syria believe that Turkey's dams are seriously undermining its economic growth, or if Turkey perceives Syrian-sponsored dissidents are a threat to its political stability, either country might embark upon military brinksmanship.

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The opposing superpower alliances of the two countries have contributed to tensions and would raise the stakes in any future military confrontation.

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Outlook

Syrian-Turkish diplomatic contact is likely to remain active in the near term, but any warming in relations will probably be more formal than substantial. Both governments have calmed their rhetoric in the interest of maintaining at least the appearance of a reconciliation, but the absence of real progress in negotiations probably will soon subvert this process.

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Turkey is likely to continue the planning and construction of its Euphrates water projects while relying on heightened border-security measures to offset the dissident threat on its southern border. Ankara, however, may be willing to modify its current plans and coordinate future plans with Damascus if Syria pledges to withdraw its support for Kurdish and Armenian groups.

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Syria would probably agree to curtail its support for Turkish dissidents in exchange for Turkish concessions on Euphrates water use. Still, Damascus is not likely to abandon these groups because it wants to keep its options open. Damascus, however, will continue to keep a tight rein on the activities of these groups to avoid cross-border retaliation by the Turks.

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Jordan: Curbing the Growth of Islamic Fundamentalism

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Jordan's King Hussein has begun a serious crackdown on the growing expression of Islamic fundamentalism—particularly within government circles—which he views as a possible threat to his policies and the Middle Eastern peace initiative. Although Islamic fundamentalism is becoming a more conspicuous vehicle for political expression, we believe the movement is not yet organized politically, lacks strong leadership, and poses no near-term threat to the stability of the Hashemite regime. King Hussein in the past has succeeded in appeasing many of the fundamentalist adherents by addressing their concerns, but he now appears unwilling to tolerate increased political activism by the fundamentalist opposition.

The Fundamentalist Appeal

Jordanians have been restricted in their political activities since 1957, when all parties were banned. Since then, opposition political opinion has been expressed mostly through the Muslim Brotherhood or clandestine organizations. The King chose not to ban the Brotherhood because it represented Islamic elements that endorsed the Hashemite monarchy. Muslim Brotherhood supporters fought with the King's forces in 1957 against a rebellion led by Prime Minister Nabulsi. Moreover, the Brotherhood serves as a counterweight to Communist and leftist influence in Jordan.

The fundamentalist movement in Jordan was given a boost by the overthrow of the secular, Western-oriented regime of the Shah of Iran and the establishment of Ayatollah Khomeini's Islamic republic. Many Jordanians condemn the excesses of the Khomeini regime but still regard an Islamic republic as desirable. Fundamentalists in influential government positions and Muslim imams in mosques recently have broadened their appeal by exploiting Jordanian disillusionment with the US-sponsored Middle Eastern peace process.

Although we believe the fundamentalists have had an impact on all levels of Jordanian society, they have

not yet created a unified or coordinated movement. They have no charismatic leader and few, if any, identifiable goals, such as overthrowing the secular monarchy and founding an Islamic republic. Even so, the government appears to realize that fundamentalism is a force to be reckoned with and a potential threat to the regime.

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Fundamentalists are actively represented in universities, the military, trade unions, parliament, and professional associations, as well as in most urban neighborhoods. The US Embassy reports that attitudes toward the nature of Islam in Jordanian society appear to differ along class lines—the lower classes favor a more radical approach than the moderate reformism popular in the middle and upper classes.

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Universities. The growing appeal of fundamentalism is most apparent on university campuses, both in organized student activity and outward expressions of piety, by the wearing of traditional Islamic garb. Islamic activists among the student body do well in campus elections and are highly visible among the predominantly Western-educated faculty. Embassy sources say more than half of the female students at the University of Jordan now wear the head scarf and long garments that are associated with urban fundamentalism.

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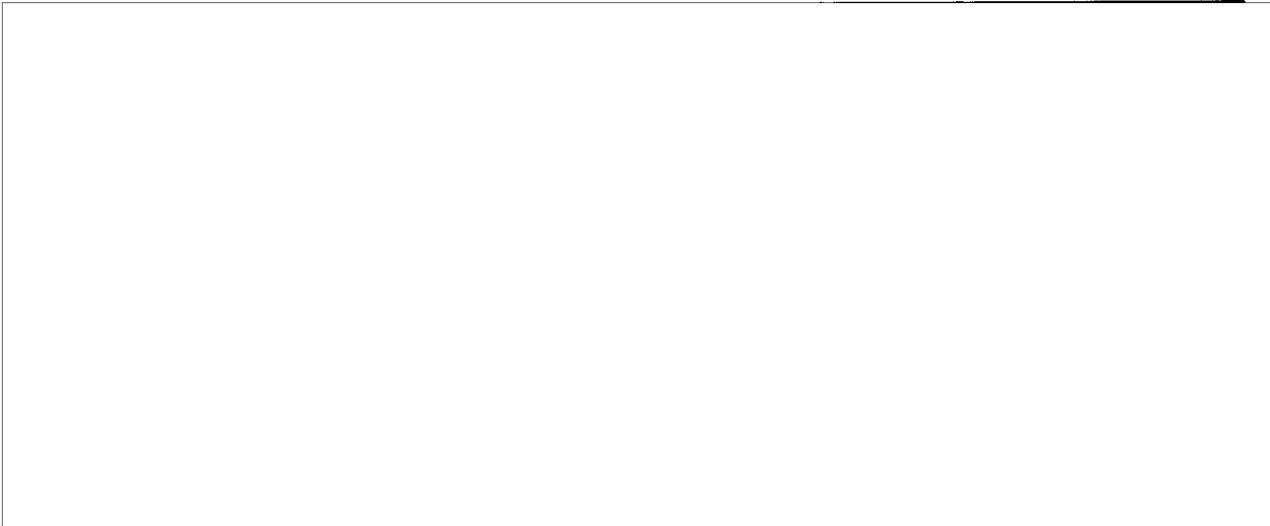
Student demands focus on Islamic activity and conformance to the Sharia or Islamic law. The Islamic studies faculties provide a legitimate forum for Islamic fundamentalist views and fill the void left by the ban on student political activities. At the University of Jordan, the medical and social science faculties also appear to be dominated by fundamentalists. Despite this Islamic activity, there does not seem to be a formal network linking the groups that are active on the campuses.

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Islamic fundamentalism may be more a trend among the younger generation than a sign of political frustration. US Embassy sources suggest that some women are paid to wear Islamic garb on campus, while others wear the long garments largely as a defensive measure to ward off pressure from Islamic activists. In addition, the Dean of Students at the University of Jordan and the President of Yarmuk University told Embassy officers that they believe fundamentalism on their campuses has peaked. [redacted]

did not have the backing of formal political parties. The fundamentalists have traditionally focused their legislative efforts on predominantly religious issues, such as Islamic banking and law. [redacted]

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Ministries. Fundamentalists in the past have been permitted to establish a significant presence in the government ministries of greatest interest to them. [redacted]

In the current legislative session, the fundamentalist bloc led by Laith Shubeilat championed causes with wider public appeal. For example, at the parliamentary meeting last November to draft a response to King Hussein's letter on improved relations with Syria—which in part blamed fundamentalist groups for Jordan's problems with Damascus—the bloc unsuccessfully attempted to include anti-US and pro-Palestinian language, according to the US Embassy. In addition, Shubeilat has been quite outspoken in his public opposition to the Middle Eastern peace process. [redacted]

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Parliament. Byelections for eight East Bank seats brought three fundamentalists to the lower house of Jordan's parliament in March 1984. US Embassy officials credit their elections to a well-organized campaign that worked well against candidates who [redacted]

Military. Members of the Jordanian armed forces cannot formally belong to the Muslim Brotherhood or any other political organization. The armed forces have a well-organized bureaucracy intended to channel religious activity to strengthen, rather than undermine, the regime. In fact, the Jordanian Government allows the deputy commander of the Army's military chaplaincy, Shaykh Ali al-Fakir, to

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rail against officials for failing to implement religious reforms. Practice of Islam is encouraged throughout the military as evidence of support for the throne and to counter the influence of secular nationalism.

The Government's Response. Hussein has tried to respond to fundamentalist interests by maintaining a dialogue with them, co-opting them by allowing certain freedoms, and publicly demonstrating his adherence to Islam. In recent months, however, the King appears to have concluded that the fundamentalists have strayed beyond acceptable behavior and pose a serious threat to his own policies, especially the US-backed Middle Eastern peace initiative.

The crackdown began in November 1985 with King Hussein's open letter to Prime Minister Rifa'i, which attacked fundamentalists for misusing Jordanian tolerance by conducting covert operations against Syria in the late 1970s and early 1980s. We believe Hussein's letter to Rifa'i was intended both as a good-faith gesture to Syria and as a warning to the Brotherhood and other extremist factions that Jordanian tolerance would henceforth be diminished.

A series of arrests, transfers, and demotions of fundamentalists in government ministries, companies, and schools soon followed. The undersecretary to the Minister of Education, Dr. Abd al-Rahim Arabiat, and four others at the Ministry of Education were dismissed for known Brotherhood affiliation. Prime Minister Rifa'i intervened directly to have several university professors fired from their posts.

In parliament, Rifa'i pushed through legislation aimed at curbing Islamic religious excess. The legislation requires that Muslim imams register with the Ministry of Islamic Affairs before receiving permission to preach and forbids imams and mosque speakers from "incitement and making accusations against persons and institutions." Moreover, the government has moved to limit the power and number of fundamentalists in the lower house of parliament. Laith Shubeilat lost his position as reporter of the influential Finance Committee, and other members of

the fundamentalist bloc were denied meaningful committee assignments. A revision of the electoral law creates electoral districts for the first time within the governorates and will allow the Jordanian Government to gerrymander district lines and possibly limit the number of fundamentalists elected.

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Outlook

The timing of Hussein's latest moves suggests that he took advantage of Jordan's reconciliation with Syria to send a message to his own Islamic constituency that public opposition to his policies in Islamic forums would no longer be tolerated. We do not believe that the fundamentalist movement threatens the Hashemite regime in the near term. Although many Jordanians may be unhappy with the secular nature of the government, most are unwilling to trade the advantages of Jordan's Westernized society for the restrictions of an Islamic state. The lack of widely recognized leaders reduces the danger that fundamentalism will become a well-organized popular movement. Despite the growing appeal of Islam among students, they appear more involved in religious than in political activity.

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We believe the government is unlikely to institute further restrictions that would give the fundamentalists fuel to ignite public opposition. In fact, an imam at the al-Rudha mosque in Amman directly criticized government officials and policies, demonstrating the animosity Islamic religious leaders have for Prime Minister Rifa'i's measures—an act

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unprecedented in a Jordanian mosque. The US Embassy reports, however, that the general reaction among fundamentalists has been to avoid activities that might antagonize the government. We believe as long as the government allows open expression of Islamic views—albeit with a moderate voice—and grants occasional concessions, King Hussein is likely to keep the support of most fundamentalists in Jordan.

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Egypt: Problems for Mubarak

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We do not believe that opposition to President Mubarak is strong enough to topple him, but it is growing and causing him serious concern. The intensified criticism of the President stems largely from his dealings with Israel and the United States, whose actions against terrorists since October have troubled many Egyptians. More demonstrations have erupted in the past four months than in as many years, opposition politicians on the left and right are more vocal, and governmental infighting has sharpened.

Mubarak has lost considerable standing, and his position may erode further. Economic conditions, a key cause of domestic grumbling, will almost certainly grow worse in the next six months, particularly in the wake of the precipitous decline in world oil prices. The President will face debt rescheduling and subsidy reform decisions that could lead to an upsurge of street violence. At the same time, his popularity will remain hostage to any Israeli and US actions perceived in Egypt as anti-Arab.

Mounting Opposition

Foreign policy crises—Israel's bombing of the PLO headquarters in Tunis, the US diversion of an Egyptian plane, the hijacking of an Egyptian aircraft to Malta, and border tension with Libya—have cost Mubarak much public support in recent months. When students demonstrated against government policy toward Israel and the United States in early October, official opposition groups backed the regime in a show of national unity. When, however, the Egyptian commando attack on the hijacked airliner in Malta ended in 60 deaths—after Cairo had praised the operation as a success—responsible opposition leaders publicly challenged the government moves. Mubarak's failure to retaliate against Libya—after he publicly blamed Qadhafi for the hijacking and moved troops to the border—probably reinforced an image of government indecisiveness and incompetence.

The apparent suicide of Sulayman Khatir, an Egyptian security guard imprisoned for killing seven Israeli tourists in the Sinai, has worsened Mubarak's problems. Since the guard purportedly hanged himself in early January, Egyptians have demonstrated in his home province and in Cairo. A US Embassy source says that the cynical Egyptian public suspects the government arranged his murder with Israeli help and US encouragement. Right-of-center Wafdist and leftist parties opposed Khatir's trial and are exploiting this emotional issue at Mubarak's expense. Cairo's attempts to block a court-ordered independent autopsy have heightened the public's suspicions.

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The Consequences

The several crises have put the regime on the defensive and generated governmental infighting. For the first time in years, the military—Mubarak's most important constituency—has been criticized. The Egyptian leader moved quickly to squelch opposition demands for the resignation of Defense Minister Abu Ghazala and for an investigation of the bungled operation at the Malta airport, but the aftermath has left strains among top military officials and between themselves and the President. US Embassy sources say the Defense and Interior Ministries have accused each other of poor performance in the Khatir affair—the military for negligence and the Interior Ministry for mishandling the protest demonstrations. Opposition newspapers claim the Prime Minister, frustrated by the internal squabbling, has threatened to resign.

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Domestic criticism has also crippled Mubarak's flexibility with Israel, forcing him to slow the pace of normalization with Tel Aviv. He had referred enthusiastically to a meeting with Prime Minister Peres once Israel agreed to arbitration of the Taba dispute. We believe Mubarak now fears that holding a

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summit meeting soon would intensify public sentiment against him. [redacted]

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Short-Term Outlook

We believe Mubarak will find it increasingly difficult to maintain public confidence through the summer. The credibility of his regime hinges largely on its economic performance, and Egypt's economy is steadily worsening. At the same time, his popularity remains hostage to any Israeli and US actions perceived as anti-Arab, while his opportunities to score foreign policy successes are diminishing. [redacted]

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The Economy. Even before the recent decline in world oil prices, Egypt's capacity to meet its external financial obligations was deteriorating. A drop in world oil prices to the \$20 per barrel level will, for example, result in a \$650 million loss of Egyptian Government revenue in 1986—an almost 30-percent reduction in hard currency oil earnings from the previous year. For a country already in trouble over arrears to international creditors, revenue losses of this magnitude will worsen debt repayment problems and make the likely date for a rescheduling agreement more imminent. [redacted]

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An IMF-supervised adjustment program and the specter of foreigners dictating Egyptian economic policies would give opposition groups a potent issue. An accelerated pace of economic reforms, including subsidy reductions and price increases, would fuel discontent within Egypt's lower and middle classes and possibly lead to an explosive political situation. The government might be able to deflect some criticism from itself and shift blame to the IMF and the United States. This would require, however, a rare combination of political resolve, skillfully crafted economic policies, and deft public relations handling for the Mubarak regime to emerge unscathed. We doubt Mubarak can pull this off. [redacted]

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The Rising Costs of Camp David. The odds are at least even that Mubarak's standing at home will continue to decline over the next six months because of his identification with Israeli and US policies. A growing number of Egyptians seem to believe that US aid does not outweigh the affront to Egypt's prestige brought on by spectacular Israeli attacks against

Arabs and by perceived US support of them. Israel's killing of some 70 Palestinian combatants and Tunisian noncombatants in retaliation for the earlier death of three Israelis in Cyprus has revived Egyptian hatred of Tel Aviv's reprisal policy. But Israel is unlikely to change its longstanding policy of countering Arab attacks. President Mubarak, therefore, is likely to suffer politically from any dramatic show of Israeli force. [redacted]

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Even Tel Aviv's nonmilitary actions could inflame anti-Israel sentiments among Egyptians and heighten disenchantment with Mubarak's regime. For example, the issue of ownership of Taba has gradually assumed symbolic proportions, and the longer Mubarak fails to retrieve it, the greater domestic anger at him and at Israel might grow. [redacted]

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Diminishing Foreign Policy Opportunities. The diplomatic recognition of Egypt by other Arab states would reduce domestic criticism of Mubarak, but the chances of such a development are slim. Arab governments ideologically opposed to Egypt's peace with Israel—Libya and Syria—will give no quarter. Other Arab states—including Saudi Arabia, Iraq, and Algeria—see no direct gains in recognizing Egypt that would outweigh the political costs of breaking with the Arab consensus. [redacted]

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Indeed, Mubarak's enemies could weaken his regime through economic warfare. Recent incidents of terrorism have already hurt Egypt's tourist industry, which last year earned some \$400 million, and outbreaks of demonstrations in Cairo almost certainly would further reduce Egypt's income. [redacted]

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A dramatic breakthrough in the Arab-Israeli peace process would quiet some of Mubarak's domestic critics, but this appears unlikely in the next several months. Key parties—the PLO, Israel, and Jordan—are reluctant to make concessions that would ease mutual distrust and give the peace talks a boost. [redacted]

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Limited Options. Mubarak feels beleaguered and a victim of circumstances. Recent events—beginning

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with his suppression of Muslim fundamentalist demonstrators last summer—have encouraged opposition from most segments of Egyptian society.

Mubarak may be increasingly tempted to take a tougher line against his critics. But a heavyhanded policy, reminiscent of President Sadat's mass arrests in 1981, almost certainly would turn public opinion solidly against him and encourage radicals, particularly Muslim extremists, to attack him.

The President may also reshuffle the Cabinet if infighting among his advisers persists. Such a move, however, would not resolve the problems the regime faces.

Meanwhile, Mubarak is likely to put distance between himself and US policies that might be viewed in Egypt as anti-Arab.

What if Mubarak Leaves Office?

Elections in 1981 made President Mubarak head of state until 1987. If he were to die or resign before then, the Constitution stipulates the Speaker of the People's Assembly, Rif'at Mahgoub, would become the interim president in the absence of a vice president. Mahgoub, who was handpicked by Mubarak, would play a major role in brokering the succession. Prime Minister Lotfy has neither the power nor the support of political heavyweights to contend seriously for the presidency. Defense Minister Abu Ghazala would be most likely to assert himself, but he could be challenged by the opposition for his pro-US stand.

An orderly succession would be likely, but a contentious one is possible. If Ghazala and other aspirants could not strike a deal in the backrooms of the high command, the military could become divided and opposition groups might try to exploit the situation. Following a probably brief period of

uncertainty, political turmoil, and perhaps some violence, it is very likely a current or former military leader would become president. Indicators of this more contentious succession include:

- Two or more leaders contend for the presidency.
- Factionalism and indecision in the military over which contender to back lead to a temporary power vacuum.
- The Cabinet and ruling National Democratic Party dissolve into rival groupings in support of different candidates.
- Political rivalries are translated into popular activism; strikes, demonstrations, and riots ensue.
- The factionalized military quells the unrest but is itself badly shaken.
- Leftwing and Islamic fundamentalist groups openly challenge the regime and further organize and inflame the antiregime unrest.
- A candidate with military ties gains power, but the new government lacks the consensus enjoyed by its predecessor.

In either case, if Mubarak left office in an atmosphere of failure and recrimination, any successor would try to distinguish his own policies from Mubarak's. This could mean some loosening of ties to the United States because Mubarak has relied heavily on this relationship for economic development, military security, and achievement of a Middle Eastern peace settlement. Mubarak's failure in these areas would make the US connection appear less an asset than before.

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Libya: Economy Under Siege

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The slide in world oil prices and US economic sanctions are the latest jolts to the Libyan economy. They come at a time of unprecedented popular discontent over Libyan leader Qadhafi's misguided economic policies and penchant for costly foreign adventures. The freeze on Libyan assets in US banks has deprived Tripoli of access to about \$700 million and closed off an important channel for receiving revenues from the sale of Libyan crude. The sharp drop in oil prices—unless accompanied by an offsetting increase in liftings—will leave even less room for Tripoli to manage the economy this year. A dip in oil prices to \$15 per barrel would confront Qadhafi with an unmanageable cash shortage unless he makes politically risky cuts in consumer imports or swallows his pride and borrows on the international market. Further reductions in imports almost certainly would increase the chances of a military decision to move against Qadhafi.

Less Is More

Qadhafi's speech last September calling for greater public sacrifice underscores growing concern in Tripoli over the poor state of the economy. Unlike previous speeches extolling revolutionary successes, the Libyan leader urged the people to eat camel meat and wild game rather than expensive imported lamb and beef. Qadhafi's uneasiness is supported by recent statistics that suggest real GDP was off 2 percent last year, the fifth consecutive year of decline. Per capita GDP is now below the 1977 level, and inflation is at a near record high of 15 percent.

Living conditions for the average Libyan continue to deteriorate.

shelves in most government-operated supermarkets are empty or poorly stocked except on traditional holidays. Food lines are longer and more contentious as people search for staples. Hoarding has become a way of life for most, and a thriving black market has evolved despite numerous attempts to control such activity. Moreover, the quality of health care and education—hallmarks of Qadhafi's revolution—has

fallen off sharply. Although few starve in Libya, most agree that Qadhafi's economic policies have failed.

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The government budget, foreign workers, and foreign contractors have all been casualties of Qadhafi's revenue squeeze. Development spending was down by 20 percent, while the administrative budget was cut for only the second time since 1969. Actual spending levels probably are as much as 40 percent lower, based on import figures and press reporting.

Moreover, [redacted] last summer's expulsion of 150,000 foreign workers was intended to save \$1 billion in worker remittances. To shore up Tripoli's foreign exchange position, payments to foreign contractors have been further delayed. The slowdown pushed Libyan commercial arrears to an estimated \$4 billion, straining relations with several of Libya's leading trading partners, including the USSR.

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Nevertheless, work on priority development projects is continuing. Last summer, government ministries decided to finish those projects that were more than half completed and to cancel or delay others under the 1986-90 Plan.

Exceptions to the decision include Qadhafi's priority Great Manmade River project, an iron mill at Misratah, and an aluminum smelter at Zuwara. Qadhafi also has attached increased importance to agricultural development to limit dependence on Western food supplies. A benefit of the development slowdown has been that it has limited the impact of the sudden loss of large numbers of foreign workers who filled unskilled or semiskilled positions.

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Defense spending also has felt the pinch. Military imports probably fell to \$1.7 billion last year from their peak of almost \$3 billion in 1982. Most of this

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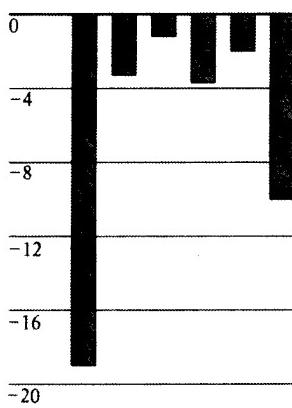
Libya: Economic Indicators, 1981-86

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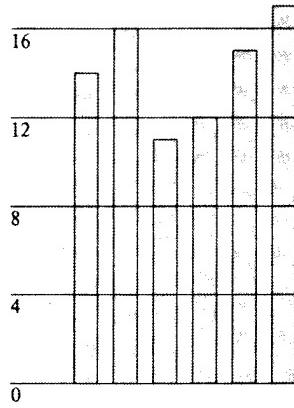
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Real GDP Growth
Percent

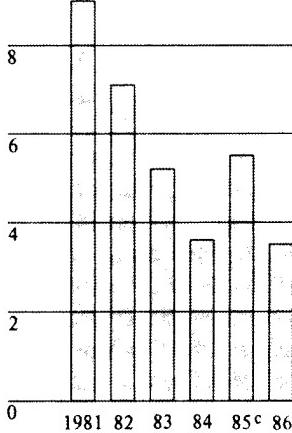
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Consumer Price Growth
Percent

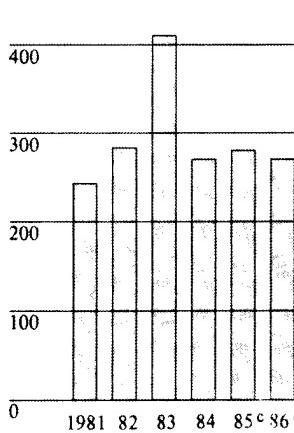
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Financial Reserves^a
Billion US \$

10

Grain Production^b
Thousand metric tons

500



decline reflects the completion of deliveries under existing contracts. Other defense-related spending has remained relatively stable. Qadhafi depends heavily on the military and security forces to stay in power and knows that they pose the greatest threat to his regime. Defense spending probably will not decline sharply to avoid antagonizing Qadhafi's key supporters.

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Qadhafi's draconian measures to stem the economic slide have had some positive effects. The sharp cut in imports and foreign workers, coupled with oil exports slightly above Libya's OPEC production quota of 990,000 b/d, probably produced a small surplus in the current account for the first time since 1982. These factors, in conjunction with delayed payments to foreign contractors, helped push financial reserves to \$5.5 billion by the end of 1985—equivalent to 10 months of import coverage—from a low of \$3.3 billion in January 1985.

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^a End of period; excluding 3.6 million ounces of gold.^b Includes wheat and barley.^c Estimated.^d Projected.

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Political Strains of Austerity

For the most part, Qadhafi is a judicious political calculator who is capable of patient waiting. He has often been able to respond flexibly to his political and economic troubles, tactically changing course without losing sight of his long-held revolutionary goals. But when he is feeling under siege or experiencing a heightened sensitivity that his revolution is failing, Qadhafi's usually pragmatic decisionmaking can falter. We judge that Qadhafi is now in such a period, and Qadhafi's flawed decisionmaking could well compound his economic problems.

Qadhafi has increasingly surrounded himself with people he believes he can trust—relatives, fellow tribesmen, or young radicals committed to his ideology.

[redacted] professional officials in key positions—particularly those in the security services—are being replaced by young extremists who have come of age under Qadhafi and are considered ideologically sound. Qadhafi also has staged rallies in tribal areas to convince both internal and external opponents that he continues to enjoy popular support. This year, for the first time, Qadhafi celebrated the anniversary of his coup in the relatively secure city of Sebha. Instead of the usual displays of military units, he featured parades of Revolutionary Committee cadres.

In our view, this reflects Qadhafi's distrust of the Army's loyalty and was intended to demonstrate to his adversaries that the Libyan revolution would continue even if he were personally eliminated.

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Qadhafi's popular base will continue to erode as long as he responds to the challenges to his regime by confining himself to a diminishing circle of loyal revolutionaries. Qadhafi is almost entirely dependent on the continued loyalty and competence of the Revolutionary Committees and the security services to preserve his position. At present, these institutions appear willing and able to protect him. Nonetheless, political and economic trends in Libya are running against Qadhafi, and we assess his chances of surviving until 1987 as little better than even.

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Table 2
Libya: Current Account Balance

Billion US \$

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| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 ^a |
|--------------------------------|-------------|------------|-------------|-------------|------------|-------------------|
| Current account balance | -5.3 | 0.6 | -1.0 | -1.5 | 0.6 | -1.0 |
| Trade balance | -1.3 | 4.3 | 3.5 | 3.1 | 4.1 | 2.5 |
| Exports (f.o.b.) | 15.2 | 13.6 | 11.9 | 11.2 | 11.0 | 8.8 |
| Imports (f.o.b.) | 16.5 | 9.3 | 8.4 | 8.1 | 7.0 | 6.3 ^b |
| Non-Communist | 13.0 | 5.8 | 5.9 | 5.9 | 4.9 | 4.7 |
| Military | 0.8 | 1.1 | 0.6 | 0.4 | 0.5 | 0.5 |
| Communist, nonmilitary | 1.8 | 1.7 | 1.3 | 1.0 | 0.9 | 0.7 |
| Soviet | 0.3 | 0.3 | 0.4 | 0.2 | 0.1 | 0.1 |
| Other | 1.5 | 1.4 | 0.9 | 0.8 | 0.7 | 0.5 |
| Communist, military | 1.8 | 1.9 | 1.3 | 1.3 | 1.2 | 1.0 |
| Soviet | 1.2 | 1.0 | 0.7 | 0.8 | 0.7 | 0.6 |
| Other | 0.6 | 0.9 | 0.6 | 0.5 | 0.5 | 0.4 |
| Net services | -3.6 | -3.1 | -4.2 | -4.1 | -3.3 | -3.2 |
| Freight and insurance | -2.0 | -1.1 | -1.0 | -1.0 | -0.8 | -0.7 |
| Investment income receipts | 1.5 | 1.1 | 0.8 | 0.4 | 0.3 | 0.2 |
| Other | -3.2 | -3.1 | -3.9 | -3.6 | -2.8 | -2.7 |
| Grants | -0.4 | -0.5 | -0.4 | -0.4 | -0.4 | -0.3 |
| Change in reserves | -4.1 | -1.9 | -1.8 | -1.6 | 2.1 | -2.0 |

^a Projected assuming average oil exports of 1.2 million b/d at \$20 per barrel.

^b Based on additional reductions in military and project-related imports.



account deficit of \$1.5 billion this year. Such a shortfall could be sustained by drawing down foreign exchange reserves.

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Outlook

Soft oil market conditions pose the greatest threat to the economy and probably to the regime. Tripoli loses \$400 million annually for each \$1 decline in oil prices at the current export level. Moreover, every 100,000 b/d drop in oil exports costs the regime \$730 million at the current \$20 per barrel price.

A \$20 per barrel oil price probably would have little impact on the economy during the next year if current export levels can be maintained. Assuming that there is no change in imports, Tripoli could face a current

An average oil price of \$15 per barrel would force Tripoli to make difficult choices without additional cuts in spending. Tripoli would face a current account deficit of \$3.0-3.5 billion this year, equal to available foreign exchange reserves. Hefty reductions in imports almost certainly would hit both civilian goods and military equipment as well as priority projects. Increased popular dissatisfaction could generate renewed coup plotting and force Qadhafi to rely even more heavily on his security forces to remain in power.

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A steep drop in oil prices also limits Qadhafi's ability to purchase support by reordering economic priorities and channeling savings into the consumer sector. He could step up oil production. An increase of 100,400 b/d in oil exports at \$20 per barrel would boost revenues by the amount of import reductions last year. Such an increase, however, would be difficult to sustain under current market conditions without price adjustments. Nonetheless, any improvement in revenues—provided Qadhafi uses the funds to purchase basic commodities—would ease mounting tensions over living standards. [redacted]

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The Libyan Oil Industry: Dependence on Foreign Companies

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The Libyan oil industry was developed primarily by US companies during the 1960s, and production grew to 3.3 million b/d by 1970. Since reaching its peak in the early 1970s, Libyan production has fallen to its present level of about 1.1 million b/d, largely paralleling the dramatic drop in overall OPEC oil production as a result of the softening world oil market. During the same period, production capability has fallen from more than 3 million b/d to about 1.6 million b/d because of inadequate oilfield maintenance and a more conservative approach to managing Libya's petroleum resources. Nonetheless, Libya's excess capacity represents about 20 percent of that outside the Persian Gulf. Moreover, Libya's crude is premium quality—therefore easily marketable—having high gravity and low sulfur content.

Foreign operating companies, such as Occidental, AGIP, and the OASIS partners, form the backbone of the Libyan crude oil industry. Fields involving foreign participation account for about 80 percent of Libyan production. These companies not only provide infusions of badly needed capital, but also bring Libya essential technical skills and managerial experience.

Crude Production Systems

Libya's crude oil production comes from five essentially separate export systems with a combined export handling capacity of at least two times its current 1.1-million-b/d production level. The redundancy and the dispersion of the oil system across Libya with links to five separate terminals along the coast increase flexibility and reduce the vulnerability of Libyan exports to disruption:

- **OASIS.** The OASIS system is the most important, accounting for more than one-third of Libya's production, or about 400,000 b/d. The system is owned and operated by the OASIS Oil Company, a partnership of three US oil companies—Conoco, Marathon, and Amerada Hess—and the Libyan National Oil Company (LNOC), which has controlling interest.

- **Occidental.** The Occidental system—a joint US-Italian (AGIP)-operated system, which produces about 285,000 b/d—is the second-largest producer. OMV of Austria recently bought 25 percent of Occidental's Libyan holdings. Occidental administers its Libyan operations from the United Kingdom. LNOC has controlling interest in both Occidental's Libyan holdings and AGIP's Libyan operating companies.

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- **AGECO.** The two government-controlled companies—Arab Gulf Exploration Company (AGECO) and Umm al-Jawabi—own and operate the third-largest system in Libya.

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- **Sirte.** The Sirte system was built by Exxon but has been operated by the government-controlled Sirte Oil Company since Exxon pulled out of Libya in late 1981. W. R. Grace—a US firm—has a small equity position in the Sirte system.

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- **VEBA.** This is the smallest producing system in Libya with about 65,000 b/d production. It was built and operated by Mobil until the company suspended its Libyan production in 1982. VEBA Oil—a Mobil partner—and Wintershall, both West German firms, have small producing fields in this system.

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Maintaining Production and Revenues

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Despite Tripoli's efforts to nationalize the oil sector, the industry is dominated by the presence of foreign companies and workers. Their presence is dictated by three key Libyan oil industry needs:

- The need for skilled technicians and managers to handle the more complex operations of the oil industry. [redacted] there are shortages of qualified personnel at all levels in the Libyan oil industry, particularly in middle management ranks.
- The need for foreign equipment and services to repair and upgrade the Libyan oil infrastructure. Libya has no domestic oil equipment manufacturing capability and must import all equipment—from steel pipe to seismic processing computers. Foreign service companies are required for pipeline inspection. Foreign technical assistance is especially critical in Libya's offshore exploration and development program.
- The need for foreign capital to carry out Tripoli's oil development programs. The drawdown in Libyan foreign reserves has necessitated more foreign equity or barter arrangements that minimize Libyan capital outflows. [redacted]

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Tripoli is fully aware of its reliance on foreign oil companies, service companies, and personnel for the efficient operation of its oil system and has tried to make working in Libya attractive to foreign companies and personnel. The government has regularly adjusted equity margins for its foreign oil equity partners to maintain their production and presence in Libya. Foreign equity participation and barter arrangements are generally viewed by the foreign companies as particularly profitable investments, [redacted] Besides oilfield expertise and capital investment, operating companies provide an assured crude oil sales outlet. We estimate foreign companies in Libya lift about one-third of Libya's production. [redacted]

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Table 2
Foreign Companies Operating
in Libya's Oil Industry

| | Activities | | | | | Comments |
|---------------------------|------------|-------------------|----------------------|------------------------------|-----------------|---------------------------|
| | Production | Oilfield Services | Exploration Services | Construction and Engineering | Equipment Sales | |
| United States | | | | | | |
| Amerada Hess | x | | x | | | |
| Baker Oil Tools | | | | | x | |
| Baroid | | x | | | | |
| Brown & Root | | | | x | | |
| Christenson Diamond | | | | | x | |
| Coastal | | | x | | | |
| Combustion Engineering | | | x | | | |
| Conoco | x | | | | x | |
| Dresser Industries | | | | | x | |
| Geosource | | x | | | | |
| Halliburton | | x | | | | |
| Lummus Crest, Inc. | | | | x | | |
| Marathon | x | | x | | | |
| Milcem | | | | | x | |
| Occidental | x | | x | | | |
| Petty Ray | | | x | | | |
| Pool Interdrill | | | x | | | |
| Sun Oil | | | x | | | |
| C. E. Vetco | | x | | | | |
| Weatherford International | | | | x | | |
| Western Geophysical | | x | | | | |
| W. R. Grace | x | | | | | |
| Austria | | | | | | |
| OMV | x | | x | | | |
| Voest-Alpine | | | | | x | |
| Brazil | | | | | | |
| Braspetro | | x | | | | |
| France | | | | | | |
| Coflexip | | | | x | | Flexible pipeline |
| Elf | x | | | | | |
| EMH | | | | x | | Single point mooring |
| Forex | | x | | x | | Neptune drilling services |
| Dowell Schlumberger | | x | | | | |
| Technip | | | x | | | |
| Usinor | | | | x | | |
| CGG | | x | | | | |

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Secret**Table 2 (continued)**

| | Activities | | | | | Comments |
|------------------------------------|------------|-------------------|----------------------|------------------------------|-----------------|---|
| | Production | Oilfield Services | Exploration Services | Construction and Engineering | Equipment Sales | |
| Italy | | | | | | |
| AGIP | x | | x | | | |
| Bellili | | | | x | | Jacket construction |
| Bonatti | | x | | | | |
| Dalmine | | | | | x | Wellheads |
| Foster-Wheeler | | | | x | | |
| Marconi | | | | | x | Petrochemical plant |
| Mariani | | | | | x | Refinery equipment |
| Micoperi | | | | x | | Refinery equipment |
| Montubi | | | | x | | Jacket construction |
| Riva | | | | | x | Refinery equipment |
| Saipem | | x | x | | | |
| Snamprogetti | | | x | | | Offshore Bouri work |
| Technimont | | | x | | | Petrochemical plant |
| Technomare | | | x | | | Jacket design |
| Turbotecnica | | | | | x | Gas turbines |
| Japan | | | | | | |
| Marubeni | | | x | | | Coke facility |
| NEC | | | | | x | Communication and computer gear |
| Niigata Engineering | | | x | | | |
| Yokagawa Electric | | | | | x | Electric controls |
| Netherlands | | | | | | |
| Shell | | x | | | | |
| Kuwait | | | | | | |
| Sante Fe International Corporation | | | x | | | |
| Norway | | | | | | |
| EB Communications | | | | | x | Telecommunications |
| GECO | | x | | | | |
| South Korea | | | | | | |
| Hyundai | | | x | x | | Topside manufacturer |
| Samsung | | | x | x | | Oil storage tanks, water injection |
| Switzerland | | | | | | |
| Sulzer | | | | x | | Oilfield pumps, turbines |
| BBC-Brown Boveri | | | | x | | Oilfield pumps, turbines, electric gear |

Secret**Table 2 (continued)**

| | Activities | | | | | Comments |
|--------------------------------|------------|-------------------|----------------------|------------------------------|-----------------|--------------------------------|
| | Production | Oilfield Services | Exploration Services | Construction and Engineering | Equipment Sales | |
| United Kingdom | | | | | | |
| Brown & Root (UK) | | | | x | | |
| Davy McKee | | | | x | | Ra's al Unuf refinery |
| General Descaling | x | | | x | | Pipeline inspection |
| John Brown | | | | x | | Project manager of Bouri field |
| SSL | x | | | | | Seismic services |
| Imperial Chemical Industries | | | | x | | |
| Weir | | | | x | | Downhole pumps |
| Motherwell Bridge Constructors | | | x | | | |
| West Germany | | | | | | |
| Deminix | x | | | | | |
| Mannesmann | | | | x | | Tubular steel |
| Siemens | | | x | | | Electrical gear |
| Prakla Seismos | x | | | | | |
| Uhde | | | x | | | Petrochemical plant |
| VEBA | x | x | | | | |
| Thyssen | | | | x | | Tubular steel |
| Wintershall | x | x | | x | | |
| Kloeckner-Humboldt-Deutz | | | | | | |
| Eastern Europe | | | | | | |
| Bulgarian Oil (Bulgaria) | x | | | | | |
| Rompetroil (Romania) | x | | | | | |
| Tsvetmetpromeksport (USSR) | | | x | | | Gas pipeline construction |

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All Libyan operating companies use equipment and service companies from the United States, Canada, and Europe for specialized tasks, including well maintenance and workover tasks, artificial lift equipment, installation, and pipeline inspection services. In particular, US companies provide critical downhole equipment and perform maintenance and pipeline inspection services.

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The role of overseas subsidiaries of US companies in serving Libyan needs is particularly complex. Most US manufacturers of oilfield equipment as well as US engineering and service companies have established foreign operations to avail themselves of lower manufacturing costs and trade and tax advantages and as a means of avoiding US export and trade restrictions. Consequently, although US companies may be the ultimate source of certain petroleum equipment and services used in the Libyan oil industry, the actual equipment and services may be provided by a foreign subsidiary, usually West European.

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US Sanctions in the Near Term

The new, wider ranging economic sanctions announced by the United States go well beyond the trade controls imposed in 1982. The US sanctions will disrupt the Libyan petroleum industry for several months at least. Any resulting production decline, however, will most likely be temporary and inflict limited hardship on the government. The number of US oilfield workers in Libya, for example, probably was no more than 300 to 500. The Libyans can rely on domestic personnel and workers from Western Europe, Canada, and Eastern Europe for assistance.

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Expatriates comprise up to 40 percent of the work force of Libya's operating companies.

Based on our estimates, 1,500 Canadians, 5,000 British, 1,500 West Germans, 1,200 French, and 16,000 Italians now live in Libya. Although we do not have a breakdown by occupation, we believe many of these individuals have petroleum-related jobs. Other foreign personnel include Pakistani, Indian, Philippine, South Korean, Maltese, and Dutch workers.

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Although production might hold up fairly well, the departure of US operating companies will complicate the marketing of Libya's crude. Before the sanctions, US companies received a margin of about \$2 per barrel for lifting as much as 200,000 b/d of Libyan crude—about 20 percent of current output—as compensation for their equity holdings. The companies then either processed the crude in their downstream operations outside of Libya or sold the

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crude on the spot market. Tripoli must now find buyers to replace the assured offtake of the US companies—a move that will probably require price discounts to attract new customers from existing arrangements. [redacted]

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Trends over the past few years have reduced the impact of the removal of US petroleum equipment companies from Libya. European and Asian equipment companies—including US subsidiaries—already are supplying the Libyans with many of the standard items usually provided in the past by US-based firms. In addition, Italian, French, and British companies working in Libya probably can replace standard supply items, such as drill pipe, needed by the Libyans. Although replacement parts for US-manufactured pumps, compressors, and other equipment might be harder to obtain, suitable substitutes probably can be procured from European subsidiaries of US firms or the USSR. If these efforts fail, the Libyans could replace the equipment at greater expense with new systems, [redacted]

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Longer Term Prospects

The longer term impact of the US sanctions depends primarily on the extent to which other countries follow suit. Among the Allies, the United Kingdom has few trade and financial ties to Libya, and those that exist are of little importance to London. Many factors, however, work against a significant widening of the scope of the sanctions. Several countries hold large Libyan debts that can be repaid only through oil exports. Many countries also see the potential of gaining large construction contracts in Libya and do not want to endanger their prospects. Some countries, especially in the Mediterranean area, probably fear Libyan reprisals for actions taken in support of the US sanctions. [redacted]

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Abu Abbas: Isolated and Dim Prospects

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Palestine Liberation Front (PLF) leader Muhammad Abbas, responsible for the Achille Lauro hijacking, appears to be settling down in Baghdad, but he is likely to have little, if any, freedom to operate because of restrictions laid on him by PLO Chairman Arafat and the Iraqi Government. Abbas apparently has kept some PLF cadre in Tunis and Algeria, possibly in the hope of escaping his Baghdad exile. We believe, however, that he has become such an embarrassment to the PLO that he has little chance of mounting new operations anytime soon. Baghdad almost certainly would not allow Abbas to conduct operations from Iraq, and Arafat has ordered him to stay in Baghdad and maintain a low profile. Syria and Libya support other PLF factions, and we believe Abbas would consider the possibility of realignment with these groups. Factional rivalry and personal animosities, however, probably preclude Abbas from realigning with anti-Arafat PLF factions supported by Syria and Libya.



Abu Abbas

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would elevate Abbas to hero status and perhaps promote "another Abu Nidal."

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US efforts to arrest Abbas have given him a new degree of notoriety among some Palestinians.

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We believe Arafat may be correct in assuming that keeping Abbas on the Executive Committee affords the PLO some supervision over Abbas's activities. Moreover, Arafat is not likely to embarrass Iraq by ousting Abbas while he resides in Baghdad, much less risk losing the support of another Palestinian faction.

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Another Renegade for Arafat?

PLO officials still seem to be grappling with the problem of what to do with Abbas and apparently hope he will fade from the headlines.

both hardliners and moderates in the PLO and Fatah agreed during December's Fatah Central Committee sessions in Baghdad that Abbas should be expelled from the Executive Committee. The moderates clearly view Abbas's presence on the Executive Committee as an embarrassment. Fatah hardliners may fear that Abbas is another Palestinian leader over whom they have little, if any, control.

Despite this opposition, Abbas has avoided expulsion from the Executive Committee,

PLO Chairman Arafat has ordered Abbas to keep a low profile but has resisted pressure from senior PLO and Fatah officials to expel Abbas from the Executive Committee. Arafat believes that Abbas's expulsion

Diminishing Returns in Tunis

Relations between the PLF and Tunisia, where the group appears to have been headquartered since late 1983, have never been more than polite. Official Tunisian policy has been to deal with Arafat as the sole PLO representative. Abbas,

apparently tried to boost the PLF's stature last summer by donating a sizable cash gift to Tunisia, intended as aid for Tunisian workers expelled from Libya!

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Following the PLF's gesture, Tunis's attitude toward the group may have improved marginally,

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14 February 1986

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[redacted] Since the hijacking, however, relations between Tunis and the PLO in general—and the PLF in particular—have cooled considerably. [redacted]

We believe that Abbas has tried to maintain a token presence in Tunisia primarily because the PLO still has its headquarters there and perhaps to give the appearance that he has options other than remaining confined to Baghdad. Most PLF members have relocated to Iraq or Algeria, however, [redacted]

[redacted] This shift appears to have taken place over the past year, probably as the PLO increased its presence in Iraq. [redacted]

[redacted] Abbas frequently traveled to Iraq throughout 1985 to meet with his people there. [redacted]

A Possible European Net

We believe Abbas's PLF faction has operatives in Western Europe, [redacted]

[redacted] We doubt that such a network is large, given the small size of Abbas's group, nor do we know how well placed its operatives are to conduct operations in Europe. We believe that Israel is still the group's primary target, although hostility toward the United States following the interception of the Egyptian plane carrying the Achille Lauro terrorists encourages operations against US interests. [redacted]

The Abbas PLF Faction

Abu Abbas established the Lebanon-based Palestine Liberation Front—also known as the Front for the Liberation of Palestine—in 1977, leading an exodus of dissidents from Ahmad Jibril's Popular Front for the Liberation of Palestine-General Command. Abbas protested Jibril's collusion with Syria against pro-Arafat Palestinian forces in Lebanon. [redacted]

Despite efforts by all interested parties in 1983 and 1984 to reconcile ideological and personal differences, the PLF divided into pro- and anti-Arafat factions. Abbas, with some 200 members, heads the pro-Arafat wing. Abbas's support for Arafat, however, may be based more on anger at Syria and the lure of the Executive Committee position Arafat offered him in late 1984 when the Palestine National Council met in Amman. The opposition PLF factions, also small, are led by Talat Yaqub, who lives in Damascus and whose group is a member of the Syrian-supported Palestine National Salvation Front, and Abd al-Fatah Ghanim, who may still reside in Damascus but whose group since 1984 appears to be more closely linked to Libya. [redacted]

Although his organization is small and does not have a network or capability anywhere comparable to the Abu Nidal group, Abbas may well appeal to young Palestinians seeking involvement in more spectacular terrorist operations. Abbas's credibility may even be enhanced among the younger generation because he has consistently rejected a negotiated Middle East settlement, as well as Arafat's 1985 accord with Jordan's King Hussein. According to press reports following the Achille Lauro hijacking, Abu Abbas is noted among some Palestinians for his "creativity"—if not effectiveness—in devising raids against Israel. In 1981, the PLF, under Abbas's leadership, conducted two unsuccessful terrorist raids into Israel using hang gliders and hot-air balloons. [redacted]

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of Israeli retaliation, such operations would strain Iraqi relations with the United States. We believe that Iraq might consider using Abbas's group against Syria. [redacted]

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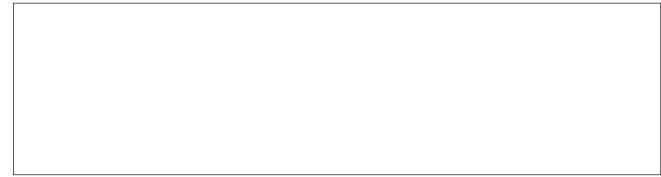
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Future PLF Plans

We have no specific information that Abbas or his group are planning new operations. On 25 December, however, the PLF office in Tunis issued a warning to the United States and Israel to discourage further US efforts to locate and arrest Abbas. We believe Abbas will comply with Arafat's order to keep a low profile. Additional threats from him or his group against the United States may depend on the degree of continued US pressure for his arrest, or, more probably, the amount of publicity given to such efforts. We believe that such threats would be more likely to be boasting and not a reflection of actual plans. Abbas's stay in Baghdad depends on his not causing political embarrassment to Iraq. [redacted]

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Even if Abbas balked at accepting indefinite oversight from Arafat or Iraq, we believe that he has few alternative havens open to him:

- Political unrest would seem to rule out South Yemen.
- We do not believe Algeria would give him asylum, even though some PLF cadre are there.
- Syria and Libya support two other PLF factions that oppose Abbas. [redacted]

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If Abbas approached either Syria or Libya for support or sanctuary, Damascus or Tripoli probably would press him to reconcile his differences with the PLF factions they support. We believe he would consider rapprochement if he received positive signals from his opponents. Personal rivalries and intergroup fighting, however, are major obstacles to a reconciliation between Abbas and other PLF factions. [redacted]

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Even though Baghdad approves of terrorism directed against Israel, it almost certainly would object to attacks planned and staged from Iraq. Besides the risk

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Iran-Soviet Union: Bearish Economic Relations Reflect Political Differences

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Economic ties between Iran and the Soviet Union have declined since 1983 largely because of the chill in political relations. Over the same period, the end of the Western economic embargo and Tehran's preference for more advanced technology have increased opportunities for Western trade and investment. Although neither Iran nor the Soviet Union is willing to make the political concessions necessary for a substantial expansion of trade, both see trade as an avenue for maintaining proper relations and eventually improving overall ties. We expect that recent diplomatic contacts will lead to a gradual improvement in economic relations, despite the absence of substantially improved political ties.

Postrevolution Courtship

Following the revolution in Iran in 1979, the Soviet Union sought to fill the vacuum left by the end of US influence and made great efforts to expand relations. Moscow sought increased trade with Tehran and continued arms deliveries under agreements made with the Shah to curry favor with the new regime and to maintain its presence in Iran. In line with this approach, the Soviet Union suspended arms deliveries to Iraq following its invasion of Iran in 1980.

Moscow was aided in its efforts to improve economic ties by the fall in Western trade that resulted from trade sanctions imposed during the detention of the US hostages in Tehran. In addition, the war with Iraq and political uncertainty discouraged private investment from most countries. The war also restricted the use of Iran's ports in the northern Persian Gulf, making Tehran more dependent on overland routes through the Soviet Union.

A series of economic agreements between 1980 and 1982 reflected efforts by both sides to improve trade relations:

- In June 1980 the first trade protocol was signed. It provided for Soviet assistance in 142 projects (mostly steel, coal mining, metallurgy, power

generating, and machine tools) and for the establishment of technical training centers in Iran.

- An agreement signed in May 1981 called for a doubling of Soviet exports to Iran. Its provisions included the expansion of power and steel plants as well as Soviet shipping to Iran's Caspian seaports.
- In April 1982 an agreement was signed covering Soviet construction of a new dam, power stations, and other joint projects.

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Relations Sour

In 1982 political relations began to sour as Iran rebuffed Moscow's bid for closer ties. In March *PRAVDA* criticized unfriendly Iranian actions—the closing of the Soviet Consulate in Resht and a unilateral curtailing of cultural relations. In April 1982 the Soviet Union tilted toward Iraq by signing a \$2 billion arms deal with Baghdad and openly attacking Iran's position on the war two months later. Moreover, articles in the Soviet press chided Tehran for not appreciating the value of Soviet economic assistance.

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Economic ties began to deteriorate markedly in 1983 as political relations reached a low point. In February, Iran arrested members of the Tudeh (Communist) Party on espionage charges and in May expelled 18 Soviet diplomats. That year Iran rejected Soviet proposals to conclude a new economic agreement,

Soviet arms deliveries to Iran, which had averaged about \$150 million per year between 1980 and 1983, fell to insignificant levels in 1984 and 1985.

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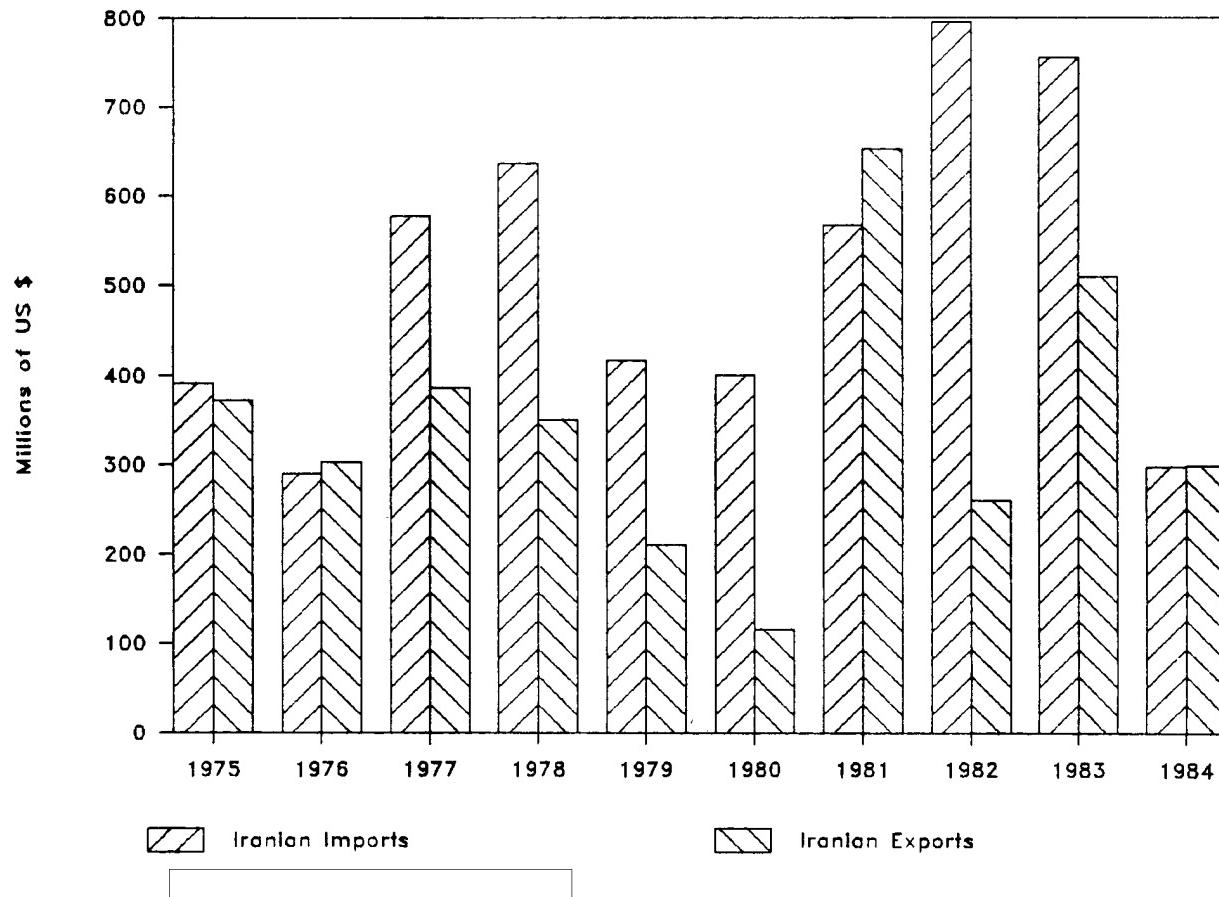
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Since 1982 political relations have remained strained because of Tehran's concern over Soviet meddling in its domestic affairs, the resumption of Soviet arms shipments to Iraq, the increasing influence of conservative Iranian clerics, and continuing tension over Afghanistan. Economic ties suffered as Tehran found that it could better meet its requirements for

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Iran-Soviet Trade, 1975-84



technological assistance from Western Europe and Japan.

conference there were good opportunities for improved trade and industrial relations. In April an Iranian economic delegation headed by then Deputy Foreign Minister Hosein Kazempur-Ardabili went to Moscow, but the trip only yielded agreements for a meeting of the moribund Iranian-Soviet Economic Commission and greater commercial use of Soviet airspace following Iraq's declaration that Iranian airspace would be closed to air traffic.

An engineer for Iran's national electric company complained that Soviet-supplied electrical equipment was substandard and constantly needed repairs.

Recent Iranian Overtures Meet With Little Success
 Early last year Iran launched a diplomatic effort to improve ties to the Soviet Union by emphasizing opportunities for closer economic relations. In February, Majles Speaker Rafsanjani told a press

Tehran's renewed interest in improving relations stemmed from a series of military and economic reversals in early 1985. Ardabili's visit followed the

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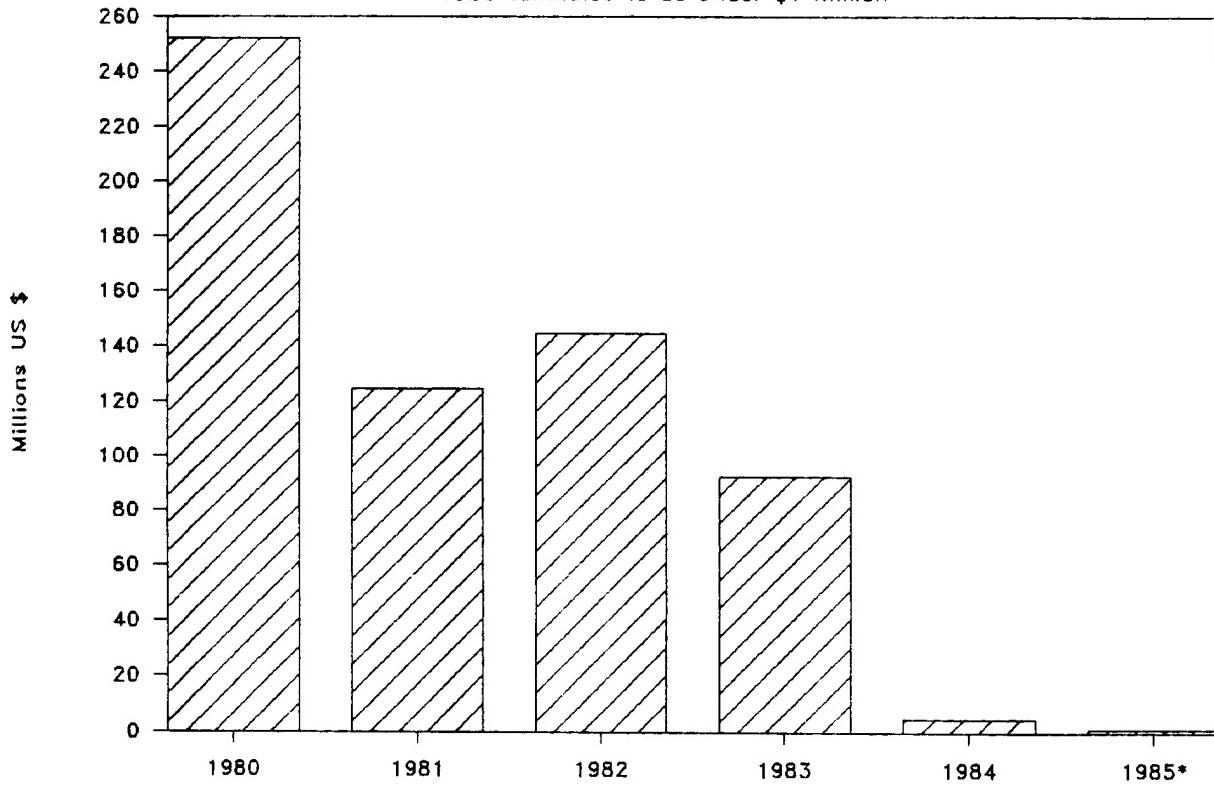
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USSR Military Exports to Iran, 1980–85

* 1985 estimated to be under \$1 million



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failure of Iran's March offensive, Iraq's bombing of Iranian cities, and several months of lower oil export earnings. Iran probably hoped offers of improved economic ties would lead to closer cooperation with the USSR. The Iranians, however, were unwilling to make more than token moves in response to Moscow's demands for a reduction in anti-Soviet propaganda, an end to Iranian support for Afghan rebels, replacement of expelled diplomats, and an end to the repression of the Tudeh Party.

- Between April and June 1985, the USSR withdrew nearly all of its 1,000 to 1,500 technicians from projects, citing concern about their safety from Iraqi bombing raids. The withdrawal was a severe blow, especially to Iran's steel and electric industries.

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- In September, Moscow rebuffed an economic delegation led by Deputy Foreign Minister Adeli that had hoped, among other things, to arrange the Soviet technicians' return.

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In the absence of significant Iranian political accommodation, Moscow allowed economic ties to deteriorate further:

- Over the past year the USSR has put off meetings of the joint economic commission, which has not met in the past five years.

The visit to Tehran by Soviet First Deputy Foreign Minister Korniyenko in early February 1986 centered on trade discussions but apparently yielded no significant agreements. Tehran Radio reported that the joint economic commission would meet soon and

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Aeroflot flights between Moscow and Tehran—discontinued in 1983—would resume. Tehran also accepted an invitation to Foreign Minister Velayati to visit Moscow. Korniyenko's description of the talks as "frank, comprehensive, and constructive" suggests that major political differences remain and that Moscow had low expectations for the trip. Although Iranian press commentaries on the trip were more positive, they also noted serious differences over Afghanistan and Soviet arms sales to Iraq.

Potential Areas for Economic Cooperation

Tehran and Moscow are likely to continue trade discussions as a way of building closer ties if political problems can be resolved. Future economic discussions between Moscow and Tehran are likely to focus on three major areas of cooperation: Soviet technical assistance to Iran's industry; natural gas trade and development; and Soviet transshipment of Iranian imports.

Technical Assistance. The number of Soviet technicians in Iran reached a postrevolution peak in 1982 of 2,500 to 3,000 working on some 55 projects. This compares to the approximately 4,500 advisers who were present before the overthrow of the Shah. Moscow radio claimed that as of March 1985 it had set up 20 training centers and trained 23,000 workers throughout Iran. By far the largest Soviet presence has been at power plant construction sites in Esfahan and Ahvaz and the steel complex at Esfahan. Several hundred technicians were withdrawn from the Ahvaz power project in March 1984 because of the war, and most of the remaining technicians were withdrawn by June 1985. In addition, specialists have helped with smaller development projects and industrial operations.

Several problems could hamper the return of Soviet experts. Moscow has said publicly that its workers would not return to Iran until their safety is guaranteed, but the Soviet Union probably is seeking Tehran's compliance with a broad range of political demands. Furthermore, Soviet officials have complained that their workers have been mistreated by local Iranian officials, according to the US Embassy in Moscow.

Iranian workers temporarily prevented the departure of Soviet technicians from Ahvaz in March 1984.

Natural Gas Trade and Development. Before 1980 the primary Iranian export to the Soviet Union was natural gas, but these sales were ended that year over a price dispute. Iranian gas exports to the USSR probably will not be resumed soon. The depressed energy market makes it unlikely that a price could be reached that would justify Iranian investments in gas production and transport. The existing gas pipelines to the USSR would require substantial time and money to refit. Moreover, Iran will require substantial quantities of gas to meet domestic consumption and to inject into oil wells to maintain oil production.

Press reports indicate Iran is interested in cooperating with the Soviet Union to exploit potentially large gas reserves in the Caspian Sea.

Tehran probably seeks to avoid depletion of fields overlapping the border in the Caspian.

Transit Trade. The Iran-Iraq war, which sharply reduced Iran's use of its two major ports on the Persian Gulf, increased its dependence on the USSR for the transshipment of goods. Tehran has grown less dependent on the USSR since 1982, however, because of the expansion of its ports in the southern Gulf. Moreover, lower import levels since 1983 have reduced the strain on its transportation network. Nonetheless, Iran currently imports about 13 percent of its goods through the Soviet Union.

About 80 percent of these cross the border by rail at Jolfa. The rest enter by road at Astara or are shipped through Iran's Caspian ports at Anzali and Nowshahr.

Outlook

Neither Iran nor the USSR appear willing to make major political concessions for the sake of improving economic ties, but both probably see increased trade as a step toward improved relations. Even if major agreements can be reached, the Soviet share of Iran's imports and exports will remain small. Nevertheless, Tehran probably seeks trade with the Communist countries as protection against another Western trade embargo. Iran and the Soviet Union both probably

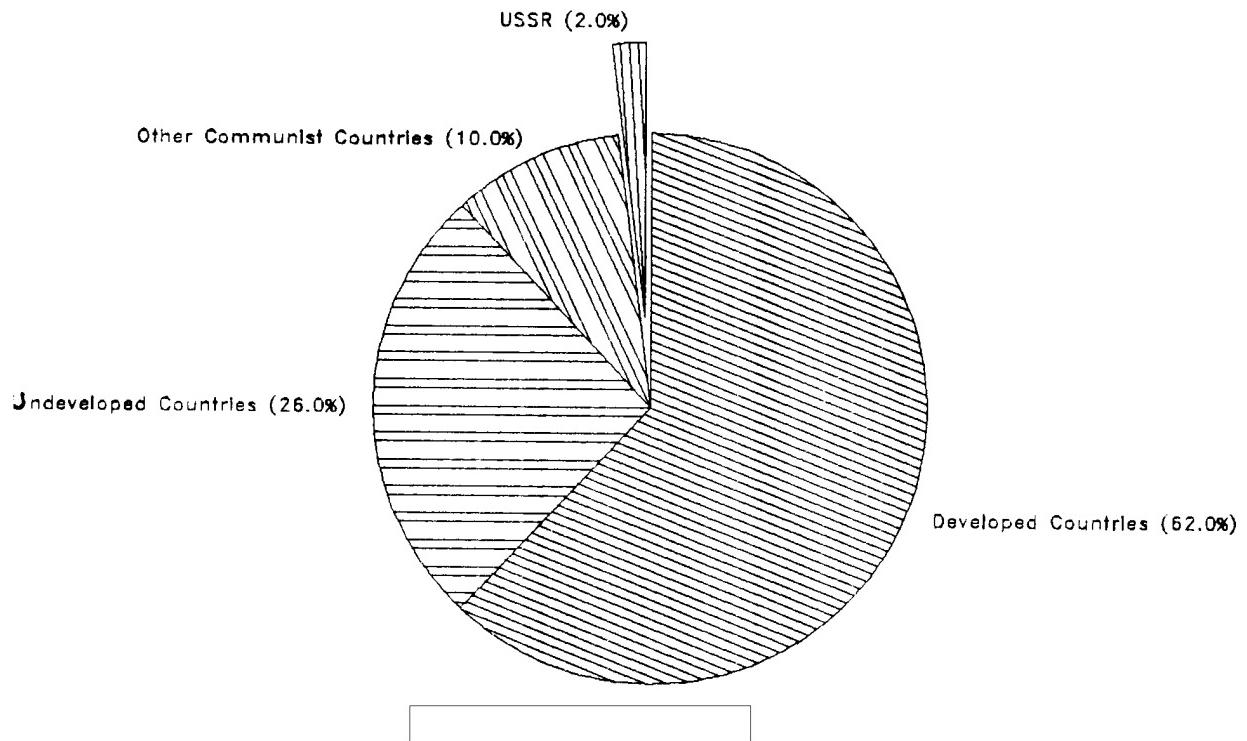
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1985 Share of Iranian Imports



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hope that trade discussions will provide a vehicle for closer ties in general. For its part, however, Moscow probably will continue to respond to Iranian overtures by insisting on political concessions in return for significantly better economic and political ties. [redacted]

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[redacted]

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Afghanistan: Masood and the Civilian Population in the Panjsher

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The civilian population in and around the Panjsher Valley contributes toward insurgent effectiveness by paying taxes, aiding insurgent resupply, building military facilities, contributing to food supplies, and providing intelligence.¹ Civilians, however, also present Masood with problems. To maintain their support, he must provide protection and some financial assistance and must see that they do not blame the guerrillas for the often brutal Soviet retaliation that follows insurgent attacks. Masood is one of a new breed of commanders that takes special pains to cultivate civilian support by running an effective local administration, emphasizing Islam, and separating guerrilla bases from civilian areas. In our view, these measures, along with his military prowess, account for his widespread popular support

and to limit his attacks to military convoys 25X1
 [redacted] In return, Kabul merchants 25X1
 provide Masood with financial support and information 25X1
 [redacted] 25X1

Civilian Support to Masood's Operations

Financial Support. Although the Jamiat-i-Islami organization in Peshawar and private Western organizations provide a significant portion of Masood's income, some Panjsher civilians also contribute to Masood's war chest. For example, an important source of income for Masood is the exploitation of precious and semiprecious gems mined in insurgent-held areas of Parwan, Badakhshan, and Kabul provinces,

[redacted]
 mine owners—closely allied with the resistance and claiming several insurgent commanders in their families' ranks—pay a 10-percent tax to Masood on the estimated sale price for lapis lazuli, emeralds, and rubies sent to Pakistan. Masood's income from this source could probably pay transportation costs into the Panjsher Valley from Pakistan for a year.

Kabul traders also provide financial support to Masood. Because the people of Kabul depend on the Salang Road being open for Soviet supplies, Masood has agreed not to block all traffic traveling to Kabul

[redacted] the civilian population in the Panjsher now numbers about 20,000, compared to 90,000 to 100,000 before the Soviet invasion

Transportation and Logistics. Civilians in the Panjsher Valley also make an important contribution to the resistance by transporting arms and supplies from Pakistan. Horses are the primary pack animals in the insurgent logistic system, and a majority of families in the valley have at least one horse to ferry arms from Pakistan.

[redacted] The Panjsher insurgents need more horses than are now available and actively encourage civilians to raise or buy horses

Food. Panjsher Valley food production also contributes to insurgent effectiveness. The Andarab Valley—where Soviet and Afghan forces are strong—also sells food to the insurgents of the Panjsher Valley

Most Panjsher farms are in the northern part of the valley and are having an excellent year

Farm production in the Panjsher Valley in 1984 was almost nonexistent, but yields of wheat and corn have increased greatly in 1985.

[redacted] Food supplies from the Andarab Valley will still be needed, but the plentiful harvest in the Panjsher Valley should provide the insurgents with an ample food reserve and a more varied diet.

Morale. The presence of civilians and insurgent families has a positive effect on insurgent morale in the Panjsher Valley

[redacted]

[redacted]

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Masood's Insurgent Base Structure

Masood's forces are organized around 40 mountain bases called qarargahs

does this in part by giving Islam a political component, by protecting civilians from retaliation, and by using effective officials in his local administration. His civilian government, for example, is in the hands of Muslim clerics, and the courts are staffed with graduates of Kabul University's Law School. His efforts to professionalize the insurgent struggle by creating guerrilla bases away from the civilian population, moreover, are largely aimed at shielding his civilian supporters from Soviet reprisals.

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Outlook

For these reasons, we believe the 20,000 civilians who inhabit the Panjsher Valley are committed to Masood and the resistance. If the Soviets decide to step up retaliation against Panjsher civilians or launch another offensive, Masood may again order the civilians to leave the valley as he did before the 1984 Soviet offensive that ended the cease-fire between Masood and the Soviets. This would initially reduce insurgent effectiveness but would not prevent Masood from launching operations in the Panjsher Valley and in the surrounding areas.

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The Problems of Maintaining Civilian Support

The civilian population makes significant contributions to the insurgents, but they also require protection and financial assistance from the resistance

Masood pays 5,000 afghanis (\$40 at the bazaar exchange rate) per month per family plus 200 afghanis per child to civilians deprived of a livelihood by the fighting. Each family is also provided with a ration card by the local mountain base that entitles it to support in the form of food and money when requested and when available,

Insurgents also distribute Western-supplied humanitarian aid to Panjsher civilians,

Masood is one of a new breed of commanders that recognizes the need to build popular support for the military struggle. He

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Pakistan: Narcotics and Tribal Politics

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A military operation mounted last December against unruly border tribes in the Pakistani-Afghan border region was widely touted in the Pakistani press as a crackdown against illicit drug trafficking, although we judge that the operation also served important political purposes for President Zia-ul-Haq. The use of more than 3,000 Army personnel to destroy the homes of tribal leaders and establish control over the main tribal villages provided a highly visible demonstration to foreign aid donors that Zia is attempting to reduce narcotics trafficking in Pakistan. It also demonstrated Islamabad's commitment to resist efforts by the Soviet-backed regime in Kabul to strengthen its influence among Pakistan's border tribes and proved the government's ability to project force into the traditionally independent border regions. Furthermore, the operation provided a public display of Zia's leadership on the eve of national elections.

Islamabad's crackdown against tribes along its western border and in the North-West Frontier Province disrupted some tribal drug trafficking and forced other traffickers to move their bases into Afghanistan. The effort probably will not decrease the overall amount of drugs produced, processed, or trafficked through the area, however, because the tribal growers and producers apparently had moved much of their activity across the border into Afghanistan before the December operation. The advent of the new civilian government on 1 January, in our view, will make future antinarcotics operations against the border tribes more difficult.

Tribal Traditions and Narcotics

The Pakistani Government has always had trouble exercising its authority in the western border regions, making it exceedingly difficult to obtain local compliance with Islamabad's antinarcotics programs. Many of Islamabad's problems in maintaining control in the North-West Frontier Province and the semiautonomous tribal areas south of the Khyber Pass can be traced to the administrative practices Pakistan

inherited from the British. Responsibility for civil administration in the main tribal areas stretching from the North-West Frontier Province south to Baluchistan is shared between Islamabad and representatives of the major tribes. Even under the centralized martial law regime, Zia had difficulty extending effective central control in the area. Many tribal areas remain nearly autonomous, much as they did under the British. Pitched battles between officials of the local military governor, federal administrators of tribal areas, and armed tribesmen have been increasingly common over the last 18 months.

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The Soviet invasion of Afghanistan in 1979 disrupted existing drug producing and trafficking arrangements in the so-called Golden Crescent and worsened the already strained relations between the border tribes and Islamabad. Nearly 3 million Afghan refugees fled into Pakistan to escape the war; many of them had been involved in opium growing. The war as well as shifts in Iranian narcotics production and trafficking in the early 1980s contributed to changes in trafficking patterns that resulted in routing much of the Southwest Asian opiate traffic through the Pakistani border regions, then south through Baluchistan and west into Iran.

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The war has not disrupted the hold that the Shinwari, Afridi, and other tribes of the Pushtun ethnic group, who control much of the territory along the Afghan border, have traditionally maintained over narcotics production and processing in the area. The opium trade offers substantial economic return to tribal groups, and it adapts easily to wartime conditions.

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drug growing

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and processing have replaced food production in many of the small valleys between Kabul and the Pakistani border.

Afghan refugees based

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in camps in Pakistan can still return home to grow

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NESA NESAR 86-005
14 February 1986

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Events Leading to December's Khyber Operation

| | | | |
|------------------|---|--------------------|--|
| 1982 | | November | <i>Islamabad convenes tribal assembly in NWFP, issues ultimatum to tribes involved in narcotics to surrender before December.</i> |
| November | <i>Islamabad sends Army to destroy tribal heroin laboratories in Landi Kotal near the Khyber Pass.</i> | | |
| 1983 | | 2 December | <i>Beginning of military operation in NWFP and Khyber region. Government forces mount five-day search-and-sweep operation in NWFP.</i> |
| Early | <i>Members of the Pakistan Shinwari tribe relocate in Afghanistan at Kabul's invitation and quickly reestablish their heroin-processing operations.</i> | | |
| 1984 | | 4 December | <i>Jirga called by Afridi leadership to denounce Wali Khan. Two hundred government troops of the Afridi tribe defect to Wali Khan.</i> |
| June | <i>DEA informants report seeing many heroin laboratories in the Afghan provinces bordering Pakistan.</i> | 7 December | <i>Government forces attack narcotics trafficker strongholds in Khyber Pass; numerous dead on both sides.</i> |
| 1985 | | 13 December | <i>Governor of NWFP tells tribal assembly Wali Khan is an outlaw drug dealer; encourages others to surrender, promises leniency.</i> |
| March | <i>Islamabad sponsors assembly of tribal leaders (jirga) to announce government crackdown on narcotics.</i> | 15 December | <i>Majority of NWFP heroin laboratories surrender to government; Wali Khan flees to Kabul.</i> |
| | <i>Leader of Kukikhel clan of the Afridi tribe, Wali Khan, stages militant antigovernment demonstrations in NWFP tribal areas.</i> | 24 December | <i>Zia announces end of operation; 100 houses destroyed, 25 laboratories smashed.</i> |
| April | <i>Afridi jirga rejects leadership of Wali Khan, supports government antinarcotics program.</i> | 30 December | <i>Zia lifts martial law; elected civilian government takes over.</i> |
| September | <i>Wali Khan supporters denounce Islamabad, Washington, praise Soviet Union for its "support of traditional tribal prerogatives."</i> | | |

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and harvest drug crops. Although leaders of many Afghan insurgent groups are reluctant to allow narcotics production in areas under their control,

[redacted] the insurgents have to accept that until they can establish firmer control in contested areas, farmers are forced

to turn to drug growing to guarantee an adequate income. Poppy is a lucrative crop, and evidence indicates combat operations in Afghanistan rarely destroy poppy fields. [redacted]

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Islamabad Moves Against the Tribes

Pakistan responded to international calls in the early 1980s to limit the flow of illicit narcotics by allowing concerned foreign agencies to begin a relatively successful rural development program to induce Pakistani farmers not to grow opium. These programs, however, have not been initiated in tribal administered regions for security and political reasons. A combination of falling opium prices in local markets beginning in 1979, a system of subsidies for compliance with government regulations and penalties for continued growing, and poor weather led to a reduction in Pakistan's production of opium from a high of more than 700 metric tons in 1979 to a low of an estimated 45 metric tons in 1984, according to Embassy reports. In 1985, however, production increased to an estimated 60 to 70 tons as a result of expanded cultivation in the tribal areas along the Afghan border.

Under international pressure to undertake additional efforts to control the flow of contraband drugs to the West, Islamabad began a program of political and military actions against Pushtun drug traffickers in the Khyber area in 1985. Embassy sources in Islamabad indicate that the local representative of Zia's martial law regime, North-West Frontier Province Governor Fazole Haq, also saw operations against the traffickers as a way to enhance his political standing. Haq, who has been governor for nearly six years, hopes to be offered a diplomatic post for his success in containing the province's narcotics problems, according to an Embassy source.

Government attempts to control drug trafficking in the tribal areas culminated in the December military operation against trafficker strongholds in the Khyber Pass region. The particular target was Wali Khan Kukikhel, a prominent Pushtun leader of the Afridi clan and a major trafficker who had accepted Kabul's patronage. Haq's political detractors—who include the military governors of the provinces bordering the tribal zone—have charged that he overstepped his authority in destroying more than 100 homes in Afridi villages. His critics further charge that Haq misused the Pakistani military to rouse tribal tensions in the region to inflate the crisis, hoping to prove the need

***Poppies, Opium, and Smugglers
in Pakistan's North-West Frontier Province***

Although opium poppies have been a traditional cash crop for many of the Pushtun tribes on both sides of the Afghan-Pakistani border, most of the raw opium produced in Pakistan before 1979 was trafficked through a series of middlemen across Afghanistan to consumers in Iran or international traffickers in Turkey. [redacted] the growing 25X1 and harvesting of opium poppies and the marketing of opiates are traditional skills well integrated into the seminomadic tribal life of the region.

Turkey's efforts to reduce narcotics trafficking in the late 1970s, the Soviet invasion of Afghanistan in 1979, and falling international prices for opiates in the early 1980s brought shifts in the traditional growing, processing, and trafficking patterns in the Golden Crescent. The disruption of conventional agriculture in the Pakistani-Afghan border area resulting from the anti-Kabul insurgency has made the economic benefits of growing and processing opium more attractive. Similarly, Soviet control of the roads linking Afghanistan and Iran has encouraged new trafficking routes for Afghan opiates into western Pakistan, then south through Baluchistan, and finally into southeastern Iran.

Local Pushtun tribes in the Khyber region of the Pakistani-Afghan border area dominate the processing and trafficking of opiates along the border. Large subclans of the Pushtun Afridi and Shinwari tribes over the last few years have taken control of the local infrastructure on both sides of the border. Afridi and Shinwari leaders dominate the smuggling apparatus to move the heroin through Pakistan to the world market or overland to transshipment points in Baluchistan and western Afghanistan for land shipment to consumers in Iran, the Middle East, and the West.

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for military intervention. Concerns were also raised about the security implications of the operation.

Haq's actions caused other Afridi clans to rally to Wali Khan's support and led some to appeal to Kabul for support. By late December, however, most Afridi leaders had publicly repudiated Wali Khan, hoping to avoid further punishment by Islamabad. According to press accounts, some local tribesmen put further distance between themselves and those producing narcotics by denouncing Wali Khan and surrendering arms and drug-processing equipment to the Pakistani Government.

We believe Haq had the blessing of President Zia to move against Wali Khan because Zia believed such an operation could achieve several political goals:

- Demonstrate to foreign aid donors—specifically the United States—that his regime was prepared to take a hard line on reducing the amount of Pakistani narcotics entering the West.
- Demonstrate Islamabad's ability to project central government authority in a traditionally unruly section of the country.
- Send a signal to uncommitted Pushtun tribes that Islamabad was serious about maintaining control in the contested border area and resisting Kabul's continued courting of Pakistan's tribes.
- Emphasize his leadership and authority on the eve of the transition to civilian rule.

We judge that the impact of the campaign on tribal narcotics operations was mitigated because the major tribes involved in the trade—the Afridis and Shinwaris—had anticipated Islamabad's actions some time earlier and had moved much of their operations across the border. Wali Khan withdrew with his followers into Afghanistan in December after the Army destroyed his home village. We believe he has been given refuge with Afghan Afridi subclans, themselves involved in narcotics production and trafficking. Wali Khan, furthermore, has had close relations with the Kabul regime for several years, according to Embassy reports. The Shinwaris have moved most of their processing laboratories into small valleys just across the border in areas controlled by Afghan Shinwari tribesmen. A US journalist traveling through Nangarhar Province in Afghanistan

in November was taken on a tour of active heroin laboratories. His guides told him local farmers were increasing their poppy crops because the Afghan army does not target opium fields.

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View From Kabul

We believe that the Soviet-backed regime in Kabul supports the Afridis and related Afghan tribes regardless of their involvement in narcotics in hopes that their activities will disrupt Pakistani security efforts in the border area. Wali Khan's son attended a Soviet-sponsored tribal assembly in Kabul last summer, and his lieutenants maintain contact with Afghan Government officials. Other Afridi and Shinwari leaders, according to diplomatic reports, have aided Kabul in security operations in Afghanistan's border regions since at least the summer of 1984. Wali Khan has spoken out against Pakistan and the United States on several occasions and in late December issued declarations through the Afghan press, vowing that the Afridis would resist Pakistani attempts to subdue "the traditional tribal life"—including narcotics trafficking.

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In our view, Kabul believes that much of the impetus behind the December military operation in Khyber was related to Pakistan's efforts to extend its control over the border region and that suppression of narcotics trafficking was secondary. We believe the Soviet-backed regime in Kabul will continue to court Afridi and Shinwari leaders, hoping to enlist their aid against the anti-Kabul insurgents who use the same border areas to mount operations against the Afghan Communists.

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Outlook

We do not believe Islamabad's recent operations in the Khyber area will result in a major reduction in the volume of narcotics moving out of the Golden Crescent. Not only have the major tribes involved in processing and trafficking opiates and cannabis moved much of their infrastructure into Afghanistan, but diplomatic reports of late January indicate that local opium prices are rising and leading traffickers have been encouraging Pakistani farmers to resist Islamabad's antinarcotics efforts.

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As a result of the December operation, we believe new political alignments are beginning to develop in the Pakistani-Afghan border region and that tribal politics will continue to complicate narcotics control. Kabul and Islamabad will continue to vie for the allegiance of the semi-independent border tribes, whose leaders will set higher stakes to guarantee their support. Inter- and intra-tribal tensions will continue as tribes on both sides of the border compete for shares of the lucrative narcotics trade. The presence of approximately 3 million Afghan refugees and the use of the border area by Afghan insurgents to launch attacks against Kabul will continue to complicate narcotics control efforts in the region. We believe the new civil administration in Islamabad faces a major challenge in attempting simultaneously to extend its control over the border tribes and not alienate tribal leaders who will look to Kabul for support against increased pressure from Islamabad.

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India: Gandhi Tackles Congress Party Problems

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Indian Prime Minister Rajiv Gandhi's recent top-level party appointments and a highly critical speech he gave to party regulars at the end of 1985 suggest he has made reorganizing and revitalizing the moribund Congress Party one of his major domestic goals for 1986. He appears to be moving toward readying Congress to bring new blood and local politicians into the party through its first internal elections in 14 years. Rajiv's efforts to reform the party are likely to be popular with younger Indian politicians as well as others who support his "Mr. Clean" image. But he will have to monitor carefully the many party officials who have become increasingly disgruntled over his perceived willingness to sacrifice party electoral prospects in Punjab and Assam, his highhanded treatment of party functionaries, and his disdain for old-fashioned Congress Party politics.

had lost two key southern states—Karnataka and Andhra Pradesh—both of which had long been Congress strongholds. Successful regional parties have also emerged in Assam and Punjab.

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Rajiv's Congress centenary speech also addressed other pervasive and more obvious weaknesses within the party—corruption and indiscipline. Over the last year the Indian press has castigated Congress hypocrisy in projecting a clean image while running notoriously corrupt politicians for office. In the more notorious proven cases, successful Congress politicians in Bihar and Uttar Pradesh have been convicted of smuggling and running illicit liquor stills and poppy farms. According to the press, a general secretary was involved in a police-underworld scandal that rocked Tamil Nadu and Maharashtra. European newspapers allege that the Congress Party has largely financed itself through kickbacks on government contracts.

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Congress Weaknesses

Although the Congress Party is the largest and most successful of India's national parties—the parliamentary election in 1984 returned Congress with the largest majority it has ever held—its highly centralized nature has made it systemically weak and increasingly unable to successfully contest local elections. Under Indira Gandhi, power within the party became more and more centralized. Since the last party elections in 1972, all officeholders have been nominated by the New Delhi-controlled patronage system, with the result that few regionally based, homegrown politicians have been allowed to emerge. According to US Embassy reporting, there are no cadre meetings, recruiting, or elections of officers at state and local levels. Many observers believe the Congress Party will wither at the national level unless it reinstates a system at the district level—or below—capable of developing cadres from which future regional and even national leaders can emerge.

In our view, systemic and organizational weaknesses played a major role in the election defeats that the Congress Party has suffered in the 1980s. By 1983 it

According to the US Embassy, Rajiv has been able to put distance between himself and party corruption. Embassy reporting on Gandhi's popularity outside New Delhi indicates that his hard-hitting speech criticizing the rot within the party was very well received.

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Cleaning House

Although Gandhi repeatedly stated during his first year in office that his aim was to revitalize the Congress Party, for much of 1985 he was too preoccupied with other issues. He did deal, however, with almost constant defections and financial contributions. Within the first few months, Rajiv pushed through a bill making it illegal for an officeholder to abandon the party that elected him without relinquishing office. Over the years Indian politicians made a practice of switching political parties with every parliamentary vote, often selecting the party that offered the largest payoff.

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The influential Times of India lampoons the public relations campaign to laud the Congress Party's centenary celebrations in the midst of widespread internal bickering.



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He next moved to make business contributions to political parties legal and tax deductible—depriving the Congress Party in general, and individual politicians in particular, of illegal private coffers and short-circuiting clandestine business influence. With no legal avenue for political contributions, business interests were often forced to contribute clandestinely to political parties and often quietly bought them out.

centenary celebration but that increasing criticism about his “isolated” decisionmaking style convinced him to hold back.

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The only pattern to Rajiv’s shifts in general secretary positions is that of satisfying varying constituencies. The number of general secretaries in the party has been increased to eight, mainly to provide representation for various ethnic communities and important states.

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Gandhi’s record on the character of political appointments is mixed. Although he turned aside more than 1,000 officeseekers in favor of “cleaner” candidates during the parliamentary election in February 1985, he has retained a number of notoriously corrupt Congress Party politicians both as state chief ministers and as members of his Cabinet.

By far the most significant move was the appointment of Arjun Singh as party vice president. Singh has held three important posts within the last two years. As chief minister of Madhya Pradesh, Singh’s handling of the Bhopal crisis brought him to New Delhi’s attention. He also is widely viewed as a chief architect of the Punjab accord—devised and concluded during the eight months in which he was chief minister of Punjab—that brought moderate Sikhs and New Delhi into agreement as to the future of Punjab. Singh most recently served as Minister of State for Commerce.

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In mid-January he appointed new members to the party general secretariat and replaced six Ministers of State in his Cabinet. Press and Embassy reports indicated that Gandhi had wanted to make wholesale changes in his Cabinet and the party after the

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Singh's reputation is that of an old-style politician who gets the job done and knows how to woo the press. He will bring vigor and a canny political sense to the post of party vice president, according to US Embassy reporting. Earlier Embassy reporting indicated that Singh was widely believed to be head of fundraising for the party, and his selection could indicate that Gandhi means to follow through on his pledge to make political parties accountable for the funds they receive.

A key remaining question for Rajiv is filling the post of party president.

[redacted] the president of the party holds the key position in the party—the most powerful member after the Prime Minister. Since 1980 that position has been held by the Prime Minister—first Indira Gandhi and now Rajiv.

[redacted] Gandhi has indicated to the press that he hopes to hold elections for party president by July 1986.

Rajiv's moves to cleanse the party have not been welcomed by all party members and will perhaps nudge a number of the old guard out of the party altogether. [redacted] some Congress Party members are disgruntled because they believe Gandhi and his Doon school cronies are inaccessible and are building a New Delhi clique of managers to impose their ideas on party members from the south, west, and northeast. Electoral losses in Punjab and Assam are blamed directly on Gandhi. The ousted Congress chief minister in Assam complained to the press that party leaders in New Delhi had expected him to fight the election with an "unloaded revolver." In Karnataka four leftist members of the Congress Party resigned in late January; the flamboyant ex-chief minister Gundu Rao is also threatening to quit, which would cripple the party there. Several newspapers have reported that a new party will soon be formed by those who have been eased out of important positions by the Prime Minister.

Outlook

India is undergoing a period of increased regionalization of party politics, and Gandhi will have

to find a way both to address regional needs and to maintain his party's national character. The revival of the Working Committee and the All-India Congress Committee (AICC), once major decisionmaking centers of the party, is crucial to giving the party a new direction. Gandhi promised in his centenary speech to revitalize party committees, bring the party back to its grassroots, and clean up its public image.

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According to the Indian press, the Working Committee and the AICC have been made responsible for strategy and for involving the states in plans for party elections and the "go to the masses" program that Gandhi plans. The press also reports that, within the next few months, the committees will plan an offensive against the "party brokers of power and influence" and draft new guidelines regarding the lifestyles of party officeholders. The revitalization efforts of the next few months are designed to culminate in party elections to be held in June and lead to the election of a new Congress Party president.

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For the near term the party's dominance within Parliament is unassailable. Congress controls the largest majority in Parliament that it has ever held, and opposition parties have been unable, either through their own efforts or in a coalition, to challenge Rajiv's dominant position. He will also be helped by the absence of local elections until 1987, when balloting is due in Kerala, a state where the Congress Party is a partner in a shaky coalition.

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Over the longer term, Gandhi faces problems with the party, whichever direction he goes with reforms. If he follows through with his promise to clean up the party and root out corruption, he will be forced to weather increasing defections of disaffected party members. On the other hand, if Gandhi fails to carry through his reforms and/or fails to allow regional voices to emerge within the national party framework, we anticipate that the Congress Party will be increasingly subject to the centrifugal forces of regional politics.

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India's Bureaucracy: "A Fence Eating the Crops"

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Bureaucratic foot-dragging and inertia pose a serious obstacle to Indian Prime Minister Gandhi's domestic agenda and his interest in improving Indo-US relations. Gandhi has already begun replacing officials wedded to his mother's policies and has called on the 3.2 million people in the federal civil service to eliminate inefficiency and corruption. We expect that Gandhi's efforts to sideline recalcitrant policymakers will be increasingly effective, but his calls for greater honesty and productivity in the civil service will have only limited effect on the bureaucracy.

As the number of US citizens traveling to India to strengthen economic and political ties grows, so will their frustrations with the Indian bureaucracy. US businessmen, officials, and tourists regularly return from India telling horror stories about their experience with one or another Indian Government office. Some stories begin with the Indian Embassy and end with an export license office in the Ministry of Commerce, others with immigration and customs officials at New Delhi's Palam Airport.

Prime Minister Gandhi has often been reported to be exasperated with the inefficiency, corruption, and footdragging he considers rampant in the Indian bureaucracy. He has spoken frequently of changing the goal orientation and work culture of government—phrases the Indian press suggests come straight out of Western management textbooks. In practice, Gandhi has relied on personnel changes, reorganization, and exhortation to try to make the bureaucracy work more efficiently. In his first year in office, Gandhi has acted quickly, undoubtedly recognizing that he needs a responsive administration to accomplish his goal of modernizing India.

The Bureaucracy: An Obstacle to Gandhi's Agenda

Bureaucratic foot-dragging poses a serious threat to Gandhi's domestic agenda and his interest in improving Indo-US relations. Gandhi has encountered some resistance on both ideological and

Gandhi on the Bureaucracy

And what of the iron frame of the system, the administrative and technical services, the police and the myriad functionaries of the state? They have done so much and can do so much more, but, as the proverb says, there can be no protection if the fence starts eating the crop. This is what has happened. The fence has started eating the crop.

We have government servants who do not serve but oppress the poor and the helpless, police who do not uphold the law but shield the guilty, tax collectors who do not collect taxes but connive with those who cheat the state, and whole legions who are only concerned with their private welfare at the cost of society.

They have no work ethic, no feeling for the public cause, no involvement in the future of the nation, no comprehension of national goals, no commitment to the values of modern India. They have only a grasping, mercenary outlook, devoid of competence, integrity, and commitment.

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nonideological grounds from elements in his foreign affairs, defense, and commercial bureaucracies. His top priority has been accelerating domestic economic growth through liberalizing reforms and cuts in state-run corporations. He also has sought to reduce regional tensions and improve relations with the United States without jeopardizing longstanding economic ties to the USSR to free resources that could be used to raise India's standard of living and international prestige.

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Some spokesmen for government employee unions, opposition politicians, and many of Gandhi's Congress Party colleagues have objected to Gandhi's liberalizing reforms on the grounds that they will open India to damaging competition and dependence on multinational corporations. Moreover, thousands of government employees in regulatory agencies and so-called sick state industries are reported in the press to be worried that Gandhi's drive to lift restrictions on imports and dissolve failing enterprises will cost them their jobs. The Indian press regularly runs articles describing agencies or deficit-plagued state firms that they hint are ripe for cutbacks or closure. [redacted]

Footdragging in the foreign policy bureaucracy probably comes from those who strongly disagree with Gandhi's assertion that India's best interests will be served by reducing tensions with neighboring Pakistan and China and moving to a position more equidistant between the United States and the USSR. Some individuals ideologically opposed to Gandhi's foreign policy initiatives caution against moving too fast in trusting Pakistan, while others view US overtures toward India as designed solely to weaken India's ties to Moscow. Others probably continue to insist on conducting ministry business by the book—requiring numerous clearances and approvals before information works its way to the top where decisions are made—simply to protect what they perceive to be their long-term professional interests. [redacted]

Public Service as "Comfortable Employment"

Indian bureaucrats share a decades'—even a centuries'—old tradition of lifetime service—a fact that strongly inhibits Gandhi from making abrupt or sweeping bureaucratic reforms. The Indian official responsible for administrative reforms recently told the US Embassy that public service in India is viewed as comfortable employment and that the government has a social responsibility to its employees—adding that New Delhi would never consider actions such as pay cuts, reductions in force, or disciplinary procedures. To date, New Delhi has announced no cuts in its 3.2 million federal work force—2.5 million of whom work in production-sector jobs on the railways, in transportation, construction, manufacturing, and utilities, and 663,000 of whom work in administrative, educational, health, and scientific jobs. [redacted]

The Bureaucracy in India's Labor Force

According to official Indian data for the early 1980s, public-sector employment in India at all levels of government involves 15.1 million people. Public-sector employees outnumbered private-sector employees two to one in the organized or modern sector of the economy. It is this ratio that undoubtedly prompted Gandhi's characterization of the bureaucracy as a 'fence eating the crops.' [redacted]

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The organized sector of the Indian economy includes all civilian enterprises in the public sector and private nonagricultural establishments employing 10 or more people. It represents less than 10 percent of India's 223-million-person labor force. Over 90 percent of the Indian labor force is in the private sector—most in agriculture, others in small and household industry, trade, and professional services. [redacted]

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Gandhi Tinkering and Lecturing

Gandhi has already made changes in the leadership and organization of his administration during his first year in office and has warned of additional changes in the months ahead if he finds that particular individuals or organizational arrangements are not working. His first move as Prime Minister was to eliminate a dozen or more third-echelon positions in the Cabinet to give credence to his election promise to "trim the fat" from government. Many of those individuals dropped were reassigned to other government jobs or positions in the Congress Party. [redacted]

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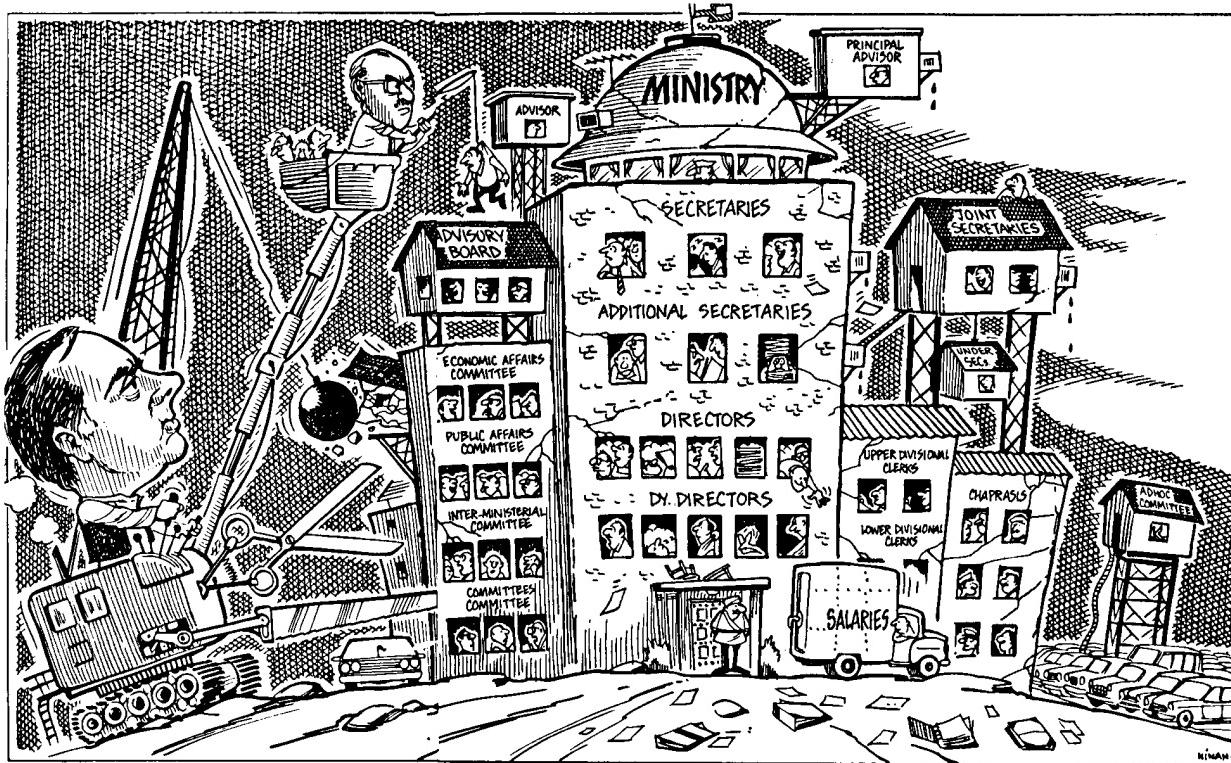
In October, Gandhi reorganized 29 ministry portfolios to match ministers more carefully with their talents and again shuffled Cabinet personnel to bring in 16 individuals he hoped would be more productive and responsive to his priorities. Gandhi used the reorganization to institute better use of personnel performance reviews, management by objectives, and computer programs to track administration progress. According to Indian press reports, senior officials who

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Rajiv Gandhi and Cabinet Secretary P. K. Kaul "trim the fat"
from India's bureaucracy

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have survived Gandhi's reorganization have responded favorably to what they view as his modern management initiatives.

undersecretary level have clearly delineated responsibilities with commensurate authority to act.

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Gandhi has also made changes in administrative procedures and practices to improve bureaucratic performance. The government's 36-hour week was collapsed from six to five days, ostensibly to tighten the decisionmaking process.

Gandhi has made numerous efforts in public speeches and private meetings to inspire bureaucrats to adopt more rigorous standards for public service behavior and to display greater enthusiasm for his vision of modern India. He has exhorted government employees to work harder and to show concern for the public they serve. He has urged them to forgo the bribes, kickbacks, and money offered by foreign agents that some Indian officials have come to look upon as supplementary benefits of public employment. Gandhi ordered a spate of arrests and investigations in connection with the spy scandal in early 1985 to punctuate his calls for greater honesty and new dedication from government employees.

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all personnel from ministry secretaries to district-level officers are required to participate in a one-week sensitivity training program to learn to appreciate the problems of other officials in their own as well as in other departments.

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Finally, Gandhi ordered that officials down to the

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Any Chance of Success?

Gandhi's ability to reduce inefficiency, redundancy, and corruption in public service is limited. US Embassy officials in New Delhi are highly skeptical that his tinkering and exhortation will have any significant impact on inefficiency and corruption in the Indian bureaucracy. Indian press coverage of Gandhi's moves supports the Embassy conclusion that New Delhi's reforms pose neither the threats nor the incentives that might shock government offices and industries into action. The Indian press concludes that public employees in both the productive and service sectors will be redeployed rather than sacked, and that they are unlikely—given the tight government budget—to be offered the pay raises or performance bonuses that might reduce corruption or spark productivity. [redacted]

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Gandhi, however, is likely to have some success in reducing foot-dragging by senior officials in his administration. He has shown that he will replace those who prove obstinate and obstructive with individuals who share his outlook. In a year or two, barring unexpected financial or foreign developments, Gandhi will have named additional senior-level administrators who will support his domestic and foreign policy priorities more single-mindedly—including the pursuit of more evenhanded relations with the United States and the USSR. [redacted]

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**Sri Lanka's Tea
Estate Tamils: Adding to
the Communal Stew** [redacted]

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With Indian-brokered talks between the Sri Lankan Government and Tamil insurgents deadlocked, an agreement reached last month between New Delhi and Colombo granting Sri Lankan citizenship to 94,000 stateless teaworkers of Indian Tamil origin has provided a boost to Indian diplomacy. The agreement has also fueled communal violence in the tea-growing areas of the Central Province, however, and provided the opposition Sri Lanka Freedom Party (SLFP) with a rallying point against the government. Widespread Sinhalese protests over the agreement will make Colombo even more reluctant to offer concessions to Tamil militants on autonomy. The government may even try to seize upon such protests as a sign of further Sinhalese support for full-scale military operations against the insurgents. [redacted]

The Agreement and the Background

The issue of stateless teaworkers has long been an irritant in Indo-Sri Lankan relations. Beginning in the 19th century, Britain began importing Tamil laborers from southern India to work on tea estates in Sri Lanka, then Ceylon. At independence in 1948, neither Colombo nor New Delhi was willing to grant citizenship to the 975,000 teaworkers of Indian Tamil origin living in Ceylon. Bilateral agreements in 1964 and 1974 committed India to accepting 600,000 teaworkers as citizens. Sri Lanka was to confer citizenship on 375,000, plus all those born in Sri Lanka after 1964. By 1981—the deadline for accepting citizenship applications—only 506,000 persons had applied for Indian citizenship, leaving 94,000 workers ineligible for either Indian or Sri Lankan citizenship. [redacted]

Preoccupied with a growing threat of Tamil separatism and unwilling to add the 94,000 teaworkers to its original quota, Colombo has done little to address the teaworker problem during the last five years. S. Thondaman, leader of the Ceylon Workers' Congress—the main Tamil teaworkers' union and political party—brought the issue to a head by threatening a work slowdown by teaworkers on 14 January. Fearing a catastrophic fall in foreign

exchange earnings, Colombo quickly negotiated a settlement with New Delhi the day after, granting Sri Lankan citizenship to the 94,000 Tamil teaworkers. For its part, New Delhi agreed to speed up the processing of 85,000 citizenship applications from teaworkers accepted under the original Indian quota but still awaiting repatriation to India. [redacted]

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Gains for the Government

The threat of a prolonged strike by Tamil teaworkers forced Colombo's hand, but, in our view, the agreement provides the government with an opportunity to drive a wedge between the Tamil teaworkers and Tamil separatists. By granting citizenship to the teaworkers, Colombo has laid the groundwork for the assimilation of a large and economically important minority. The granting of citizenship has also given the teaworkers a stake in the preservation of Sri Lankan unity and will probably make it even more difficult for Tamil separatists to recruit them. [redacted]

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We expect the granting of electoral rights to Indian Tamils will bring the bulk of estate worker votes to the ruling United National Party (UNP) or the Ceylon Workers' Congress. This would further diminish the SLFP's already weak standing in Parliament. [redacted]

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Sinhalese Backlash

The government's decision to grant citizenship to the 94,000 stateless Tamil teaworkers has led to violence and given the opposition its first major issue since President Jayewardene restored SLFP leader Sirimavo Bandaranaike's political rights last month. Four days of rioting—encouraged by the SLFP against homes and businesses of Tamil teaworkers in

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Secret**Sri Lanka's Indian Tamil Teaworkers**

Indian Tamil teaworkers are scattered in small pockets throughout the densely populated Sinhalese areas of the Central Province. Surrounded by Sinhalese Buddhists, the teaworkers practice Hinduism, speak Tamil, marry among themselves, and work only on tea plantations. Different caste origins in southern India, their relatively recent arrival in Sri Lanka, and their menial economic occupation have isolated the Tamil teaworkers from other Tamils in Sri Lanka.

With only nine members in Parliament and no prospect for a general election before 1989, the SLFP is likely to encourage anti-Tamil sentiment among rural Sinhalese in a bid to rebuild its political base. Close ties to village leaders, farmers, merchants, and members of the Buddhist clergy are likely to form the backbone of any SLFP attempt to reassert its influence in Sinhalese rural areas. [redacted]

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Tamil teaworkers have played an essential role in the development of the key segment of Sri Lanka's cash crop economy and now enjoy close political ties to the Sinhalese-dominated central government. Unlike Sri Lankan Tamils in the Northern and Eastern Provinces who seek greater autonomy, the teaworkers have sought to enhance their political standing in Sri Lanka by forging coalitions at the center. The participation of the teaworkers' principal leader—S. Thondaman—in the Cabinet and his shrewd manipulation of their economic clout has given the teaworkers strong representation and political leverage in Colombo.

Gains for India

The agreement represents the first significant gain for India from closer Indo-Sri Lankan ties since Indian Prime Minister Gandhi launched his effort to mediate the two-and-a-half-year-old Sinhalese-Tamil communal conflict in June 1985. New Delhi, in our view, will be able to portray the agreement to the Indian people, especially the large Tamil population, as a result of its new "good neighbor" policy in the region. New Delhi's promise to accelerate the repatriation of 85,000 Tamil teaworkers to India will demonstrate good faith to India's watchful neighbors in view of the costly presence of more than 130,000 other Sri Lankan Tamil refugees already in south India and unlikely to return to Sri Lanka. [redacted]

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In our view, Tamil separatist groups—already beleaguered by internal caste and regional divisions—would be hard pressed to integrate successfully yet another Tamil group into antigovernment operations.

In our view, the UNP's successful negotiation of an agreement resolving the status of the teaworkers reflects, in part, the close working relationship between senior Sri Lankan and Indian officials stemming from months of dialogue on the more intractable issue of Tamil separatism. Earlier agreements on the status of the stateless teaworkers were negotiated under the governments of SLFP leader Sirimavo Bandaranaike—until recently, New Delhi's preferred political partner in Sri Lanka. [redacted]

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the Central Province—forced the government to impose a curfew and deploy the Army to restore order. [redacted]

Impact on Negotiations

The violent Sinhalese reaction to the teaworkers' agreement suggests President Jayewardene will be even more reluctant to submit any settlement with Tamil insurgents to a public referendum—a key opposition demand. The backlash may also strengthen the position of hardliners in the Cabinet, like National Security Minister Athulathmudali—who would welcome a public mandate for full-scale operations against Tamil insurgents. [redacted]

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Nonetheless, we believe Colombo will attempt to portray its concessions on citizenship as evidence that a Sinhalese-dominated government is not necessarily hostile to Tamil interests. To a lesser degree, the agreement will also add grist to the government's repeated claims of commitment to a multiethnic, fully enfranchised, pluralist society. [redacted]

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An alliance between the SLFP and Sinhalese hardliners in the electorate would complicate New Delhi's mediation role. New Delhi realizes a negotiated settlement between the government and Tamil separatists will require a Sinhalese consensus on the nature and extent of devolution of central government authority to Tamil areas. The need to reach this consensus, coupled with Bandaranaike's return to the political arena, may force New Delhi to consult her on negotiations. These consultations would embarrass Jayewardene, and they could also drag Indian diplomacy further into Sri Lankan party politics, reducing further the likelihood of a negotiated settlement. [redacted]

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The momentum gained by the opposition and the growth of hardline Sinhalese sentiment poses a long-term challenge to the government's communal policies in general. As the government becomes more wary of making concessions to Tamil separatists, the opposition and its allies among rural Sinhalese could gain a de facto veto over any proposed settlement with Tamil separatists. Although New Delhi may be able to wrest concessions from Colombo and broker a negotiated settlement, we expect the Sinhalese electorate to remain largely immune to Indian political pressure. [redacted]

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Near East and South Asia Briefs

Lebanon**Balance-of-Payments Surplus** [redacted]

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Lebanese Central Bank foreign exchange reserves stood at \$1 billion at the end of 1985, up almost \$380 million from their level in December 1984. Given a probable current account deficit of slightly more than \$1 billion, capital inflows into Lebanon in 1985 were well in excess of \$1 billion. Foreign funding for the various militias, particularly the PLO, probably accounts for a large portion of this inflow. Other inflows probably include profits from the black market, exports to Syria, and money repatriated by Lebanese workers returning from the Gulf states. Although 1985 was not too bad a year economically, the recent fighting in Beirut and the failure of the Syrian-sponsored Tripartite Agreement have given 1986 a bad start. The Lebanese pound has fallen 30 percent in the last three weeks to about 25 to the dollar. The Central Bank sold \$165 million in foreign exchange in January to slow the pound's fall but had little success. In addition, inflation has taken off, and capital flight has undoubtedly increased. [redacted]

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Libya

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Water Project Slowdown [redacted]

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Construction of the main portion of the Great Manmade River project is nearly six months behind schedule, and bidding on the western phase of the scheme will be delayed until 1987. [redacted] Production problems at the pipe plants as well as management and financial problems are primary causes for the delays [redacted]. The Libyan project manager does not anticipate a significant impact on the project's completion as a result of the withdrawal of US firms and other US economic sanctions. One US firm probably will continue to operate through a British subsidiary. The primary

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phase of the pipeline is being constructed by a South Korean construction firm—Dong Ah—and Japanese and West European companies can fill the orders of departing US firms. The South Korean contractor probably will not abide by US quality control measures, which could shorten the useful life of Qadhafi's priority project [redacted]

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Morocco**Cash Crisis Continues** [redacted]

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Morocco paid the remainder of its long overdue \$83 million debt to London Club creditors in late January, exhausting the country's working capital. [redacted]

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[redacted] commercial creditors are expected to accept the \$78 million payment, but lingering disagreements over the Central Bank as guarantor could delay further implementation of Morocco's 1983/84 rescheduling agreement. [redacted] Rabat had to draw down nearly all cash and credit reserves of state corporations to pay the installment. [redacted]

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[redacted] failure of traditional Arab donors to honor aid commitments—particularly the United Arab Emirates, which promised \$200 million last fall—created the cashflow crisis. [redacted] only immediate foreign aid injections can resolve current difficulties. Rabat already has had to scrap a deal to buy two battalions of badly needed tanks from the United States, causing additional morale problems within the military and criticism of King Hassan. Delays in meeting impending debt payments could jeopardize the rescheduling of the country's 1985/86 commercial debt and spell the demise of the troubled \$200 million IMF standby loan. [redacted]

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Syria**Financial Troubles Mount** [redacted]

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The Syrian Government has undertaken a broad crackdown on illegal money-changing and smuggling. As many as 1,500 moneychangers have been arrested throughout Syria, according to the US Embassy. The government has closed the Lebanese border to all but official traffic and prohibited the import of goods from Lebanon. These moves send a political warning to the Lebanese Christians, who profit from the contraband trade with Syria, and help slow the precipitous fall of the Syrian pound. After falling 33 percent in two weeks, the pound temporarily strengthened to about 16 to the dollar following the government moves. [redacted]

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The recent fall of the pound and rising prices are causing popular concern, even among average workers who until recently have been sheltered by government subsidies and price controls. Criticism is being directed at Prime Minister Kasm and his Cabinet—not at President Assad—and Assad may soon decide to replace Kasm with Minister of Economy and Foreign Trade 'Imadi. Bread riots, like those in past years in Cairo and Tunis are not likely to occur, given Syria's extensive security apparatus and President Assad's popularity. The Syrians will look for additional outside aid, primarily financial aid from Saudi Arabia, but also oil aid, as their economic relationship with Iran is strained. [redacted]

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Secret**Tunisia****Cash Crunch**

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The steep drop in world oil prices will have a chilling effect on Tunisia's shaky foreign exchange position and its ability to meet debt service payments. Heavy drawdowns on outstanding credit lines helped boost the country's foreign exchange reserves to \$250 million at the end of 1985 from a low of \$90 million in July. Nevertheless, planned budget expenditures early this year probably will cause reserve levels to tumble. If the \$6 per barrel drop in world oil prices holds, coupled with a weak phosphate market, about \$100 million would be added to the current account deficit this year. A shortfall of this magnitude would wipe out much of the gain from Tunisia's austerity program and push the country's debt service ratio above 25 percent. Tunis probably will have to seek additional foreign lending this year, but creditors may demand even greater fiscal stringency, which will strain already tense government relations with labor and consumers.

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Oil Crisis

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The world oil price plunge comes as a severe shock to Tunisia's economy, which is already under pressure from fiscal austerity and a mounting debt service burden. Crude oil sales accounted for 40 percent of foreign exchange receipts last year. The US Embassy in Tunis claims that \$20 per barrel oil will increase the budget deficit by 10 percent, trim 2 percentage points off GDP growth, and increase the current account deficit by up to \$100 million. A price of \$15 per barrel would almost double the impact. Moreover, on the basis of seismic studies, prospects are increasingly bleak for new commercial oil discoveries that could help offset the effect of declining oil prices. Government options for accommodating the drop in oil revenues are limited. Additional budget cuts will affect the ruling party's patronage structure and further erode popular confidence in the regime's economic policies. Additional foreign borrowing almost certainly will be at less favorable rates than previously obtained and would push Tunisia closer to a politically troubling IMF economic stabilization program.

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